National Grid USA and The Narragansett Electric Company
Division 1-1

Request:

Please provide a copy of any and all other applications made to regulatory authorities for approval of the Transaction, including but not limited to the Federal Energy Regulatory Commission (FERC) and the Massachusetts Department of Public Utilities.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-1 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-2

Request:

Please provide a copy of all Documents including any correspondence, analyses, presentations, reports, or memoranda, that constitute or are related to the "comprehensive strategic review," undertaken by PPL's Board of Directors and referenced in the Direct Testimony of Vincent Sorgi at 8:1-2.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-2 for the requested information.

National Grid USA and The Narragansett Electric Company
Division 1-3

Request:

Provide a copy of all Documents related to PPL's "strategic plan to focus on United States-based regulated utility operations," referenced in the Petition (¶ 22).

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-3 for the requested information.

National Grid USA and The Narragansett Electric Company
Division 1-4

Request:

Please provide copies of all presentations made to the Board of Directors or Shareholders of any of the Applicants relating to the Transaction.

Response:

Please see Attachment NG-DIV 1-4-1 Confidential and Attachment NG-DIV 1-4-2 Confidential for extracts of two documents provided to the National Grid plc Board of Directors that reference PPL Rhode Island Holdings, LLC's ("PPL Rhode Island") acquisition of The Narragansett Electric Company ("Narragansett") from National Grid USA (the "Transaction"). National Grid USA and Narragansett have determined the information from these documents not included in the extracts provided herein is not relevant to this proceeding based on their sound judgment and rule of reason in providing responsive documents, consistent with the guidance provided by the Rhode Island Division of Public Utilities and Carriers Advocacy Section ("Advocacy Section") on June 22, 2021 relating to the scope of the data requests in this proceeding, and taking into account the Advocacy Section's goal of protecting ratepayers when determining scope and relevancy.

In addition, please see Attachment NG-DIV 1-4-3 through Attachment NG-DIV 1-4-10 for documents provided to shareholders of National Grid plc regarding that reference the Transaction.

Prepared by or under the supervision of: Christopher McCusker, Richard Burlingame, and Legal Department

nationalgrid

Proposed WPD acquisition & portfolio repositioning

Released : 18 Mar 2021 07:00

RNS Number : 6406S
National Grid PLC
18 March 2021

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

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FOR IMMEDIATE RELEASE

National Grid plc

Proposed acquisition of Western Power Distribution and strategic portfolio repositioning

National Grid plc ("**National Grid**" and together with its subsidiary undertakings, the "**Group**") today announces that it has agreed to acquire PPL WPD Investments Limited (together with its subsidiary undertakings, the ("**WPD Group**")), the holding company of Western Power Distribution ("**WPD**"), the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation ("**PPL**") (the "**WPD Acquisition**") for an equity value of £7.8 billion and National Grid has agreed to sell The Narragansett Electric Company ("**NECO**") to PPL Energy Holdings, LLC, also a subsidiary of PPL, for an equity value of US$3.8 billion (£2.7 billion) (the "**NECO Sale**", and together with the WPD Acquisition, the "**Transactions**").

In addition, National Grid announces that it will commence a process later this year for the sale of a majority stake in National Grid Gas plc, the owner of the national gas transmission system ("**NGG**") (the "**NGG Sale**").

Together these transactions will:

- strategically pivot National Grid's UK portfolio towards electricity. The proportion of the Group's assets in electricity will increase from c.60% to c.70%;
- strengthen National Grid's long-term growth outlook by ensuring a significant scale position in electricity distribution through the acquisition of WPD, the UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition;
- significantly enhance National Grid's central role in the delivery of the UK's net zero targets, given the complementary nature of transmission and distribution, providing benefits for customers;
- deliver shareholder value as the transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term;
- underpin National Grid's 5 to 7% asset growth target for longer, further supporting National Grid's updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current overall strong investment grade credit rating;
- maintain the Group's geographic and regulatory diversity, with c.40% of the Group assets in the US after the sales of NECO and stake in NGG;
- generate attractive shareholder value through the sales of NECO and a majority stake in NGG; and
- ensure management continuity and focus: the CEO and CFO of WPD will lead the UK distribution business as part of the enlarged Group. National Grid, recognising the importance of WPD to the communities it serves, intends to maintain the WPD headquarters in Bristol and offices in other key locations.

Completion of the WPD Acquisition, which will be funded by fully committed bridge facilities, is expected to occur within the next four months and completion of the NECO Sale is expected to occur before the end of the first quarter of 2022. National Grid expects to launch the sale process for NGG in the second half of this year and complete the sale approximately a year later.

John Pettigrew, Chief Executive of National Grid, said:

"These transactions will be transformational for our UK portfolio. The acquisition of WPD is a one-off opportunity to acquire a significant scale position in UK electricity distribution. WPD has a high quality, fast growing asset base and an excellent track record of customer satisfaction, operational performance and financial returns. We have received a premium valuation for our Rhode Island business and I am confident that we will also deliver attractive shareholder value from the NGG Sale in due course.

In combination with the continued successful execution of our strategy in the US, establishing National Grid as the leading electricity

transmission and distribution operator in the UK will strengthen our long-term growth prospects, enhance our role in the UK's energy transition and drive long term shareholder value. Following the completion of these transactions, we will continue to have a diversified portfolio of assets across the UK and US, with a strong asset growth profile that will further underpin our dividend policy for the longer term.

I'd like to take this opportunity to say a heartfelt thank you from all of us at National Grid to all the fantastic Rhode Island colleagues who have worked so hard over the years to deliver the energy needs for our customers across Rhode Island. I know that PPL will be an excellent steward for both NECO's customers and colleagues.

As we move our portfolio to higher growth assets, we have taken the decision to sell a majority stake in NGG. Given the strategic nature of its business coupled with its central position in a transition towards a hydrogen economy, it will continue to play a vital role in the UK's energy system. We expect strong interest when the sale process begins, likely to be in the second half of this year.

The acquisition of WPD brings great people and outstanding experience to National Grid and I am hugely excited about building the future together. Our vision for National Grid remains unchanged, to be at the heart of a clean, fair and affordable energy future. With increased exposure to the UK's electricity sector, these transactions enhance our role in the progress towards net zero, underpinning our core ambition which is to enable the energy transition for all. We look forward to constructive engagement with Ofgem and policymakers, on how best to achieve these common goals in the best interests of all our customers and wider stakeholders."

The WPD Acquisition is a Class 1 transaction under the Listing Rules and is therefore conditional upon the approval of shareholders at a General Meeting. Accordingly, National Grid will shortly publish a shareholder circular containing further details of the WPD Acquisition, a recommendation from its board of directors (the "**Board**"), and the notice of the General Meeting which is expected to be held by the end of April 2021. In addition, the Transactions are conditional on certain regulatory approvals and the NECO Sale is conditional on completion of the WPD Acquisition occurring.

The person responsible for arranging the release of this announcement on behalf of National Grid is Justine Campbell, Group General Counsel & Company Secretary.

Analyst call with Q&A:

The Group will host an analyst call today at 08.15 GMT. To view the slides and listen to the audio please visit https://streamstudio.world-television.com/786-1014-27867/en (pre-registration required).

If you would like to ask a question please also join the conference call using the following phone numbers:

Participant access code:	946437
United Kingdom (Local)	020 3936 2999
United Kingdom (Toll Free)	0800 640 6441
United States (Local)	1 646 664 1960
All other locations	+44 20 3936 2999

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Philip Apostolides

National Grid plc

Proposed acquisition of Western Power Distribution and strategic portfolio repositioning

1. Introduction

National Grid plc ("**National Grid**" and together with its subsidiary undertakings, the "**Group**") today announces that it has agreed to acquire PPL WPD Investments Limited (together with its subsidiary undertakings, the ("**WPD Group**")), the holding company of Western Power Distribution ("**WPD**"), the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation ("**PPL**") (the "**WPD Acquisition**") for an equity value of £7.8 billion and National Grid has agreed to sell The Narragansett Electric Company ("**NECO**") to PPL Energy Holdings, LLC, also a subsidiary of PPL, for an equity value of US$3.8 billion (£2.7 billion) (the "**NECO Sale**", and together with the WPD Acquisition, the "**Transactions**").

In addition, National Grid announces that it will commence a process later this year for the sale of a majority stake in National Grid Gas plc, the owner of the national gas transmission system ("**NGG**") (the "**NGG Sale**").

Together these transactions will:

- strategically pivot National Grid's UK portfolio towards electricity. The proportion of the Group's assets in electricity will increase from c.60% to c.70%;
- strengthen National Grid's long-term growth outlook by ensuring a significant scale position in electricity distribution through the acquisition of WPD, the UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition;
- significantly enhance National Grid's central role in the delivery of the UK's net zero targets, given the complementary nature of transmission and distribution, providing benefits for customers;
- deliver shareholder value as the transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term;
- underpin National Grid's 5 to 7% asset growth target for longer, further supporting National Grid's updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current overall strong investment grade credit rating;
- maintain the Group's geographic and regulatory diversity, with c.40% of the Group assets in the US after the sales of NECO and stake in NGG;
- generate attractive shareholder value through the sales of NECO and a majority stake in NGG; and
- ensure management continuity and focus: the CEO and CFO of WPD will lead the UK distribution business as part of the enlarged Group. National Grid, recognising the importance of WPD to the communities it serves, intends to maintain the WPD headquarters in Bristol and offices in other key locations.

2. Information on WPD and NECO

WPD

WPD is the UK's largest electricity distribution business with its four distribution network operators ("**DNOs**") delivering electricity to approximately 7.9 million customers and employing over 6,500 staff. WPD's network comprises approximately 90,000 kilometres of overhead lines, 135,000 kilometres of underground cable and 188,000 transformers.

At 31 March 2022, the total regulated asset value ("**RAV**") of WPD is projected to be approximately £8.8 billion having grown by approximately 5% per annum through the first regulatory price control process known as RIIO-ED1.

Net debt of the WPD Group at 28 February 2021 was £6,413 million.

NECO

NECO is the largest electricity transmission and distribution service provider to, as well as a natural gas distribution company in, Rhode Island, USA, with over 700 employees and serving approximately 780,000 customers.

At 31 March 2020, the rate base of NECO was approximately US$2.6 billion, comprising approximately US$1.8 billion distribution and US$0.8 billion transmission.

Net debt of NECO at 31 December 2020 was US$1,396 million.

3. Reasons for the Transactions

The board of directors (the "**Board**") considers the WPD Acquisition and NECO Sale to be a compelling opportunity for the following key reasons:

- ***The WPD Acquisition allows National Grid to bring together two complementary businesses***

  The WPD Acquisition allows National Grid to bring together two complementary businesses which have a shared vision of being at the heart of driving the delivery of clean, fair and affordable energy for the future.

- ***WPD represents a one-off opportunity to establish a significant scale position in UK electricity distribution, enhancing National Grid's key role in the delivery of net zero carbon emissions***

  The acquisition of WPD represents a compelling one-off opportunity for National Grid to reposition its UK portfolio towards a critical element of delivering decarbonisation to the UK.

- ***WPD and electricity distribution will add significant growth potential to National Grid***

  Evolution in energy use by end consumers is likely to result in increased demand for electricity which will in turn require significant investment in electricity networks. Adding WPD to the Group's portfolio will secure access to this potential pool of growth in electricity distribution, with its high quality assets well positioned to take advantage of these sectoral trends.

- ***WPD has a track record of excellent performance***

  WPD has a high quality asset base and was the only DNO group to be 'fast-tracked' by Ofgem in the last regulatory price control process known as RIIO-ED1. In addition, WPD is consistently a top-performing DNO group for overall customer satisfaction.

- ***WPD has a highly experienced management team and excellent stakeholder engagement***

  WPD has a highly experienced management team supported by over 6,500 employees. WPD has also demonstrated excellent stakeholder engagement, with the business rated first in the industry by Ofgem for eight consecutive years, for its approach to social obligations and stakeholder engagement.

- ***The NECO Sale is a key differentiator for the WPD Acquisition, with National Grid retaining flexibility to pursue its targeted growth agenda***

  The NECO Sale is a key differentiator for the WPD Acquisition. National Grid will retain flexibility to fund additional growth opportunities at competitive rates, which underpins its asset and dividend growth, whilst enabling the Group to maintain an efficient capital structure.

4. Sale of majority stake in NGG

NGG owns, manages and operates the national gas transmission network in Great Britain. At 31 March 2020, NGG had approximately 7,630 kilometres of pipeline and a workforce of nearly 2,200 employees.

At 31 March 2020, the RAV of NGG was approximately £6.3 billion.

As well as the national gas transmission network, NGG owns National Grid Metering, which generated an operating profit of £158 million in the year to March 2020.

National Grid expects to launch a sale process for a majority stake in NGG in the second half of 2021 and complete the sale in the second half of 2022. The Board anticipates significant buyer interest given NGG's high-quality operations, proven delivery, the strategic nature of the business, its regulatory certainty following the RIIO-T2 determination and the key role that the network will have to play in the energy transition.

The Board believes the proposed sale to be the right decision for shareholders as whilst NGG is a strongly cash generative, profitable and mature business, the sale will enable National Grid to focus on higher growth assets, whilst maintaining a strong balance sheet.

5. Financing of the WPD Acquisition and use of proceeds of the NECO Sale

The WPD Acquisition will initially be funded by bridge financing facilities (the "**Acquisition Facilities**") in the amount of £8.25 billion to finance the acquisition of WPD and refinancing of certain WPD debt. This will then be repaid over time, from the proceeds from the NECO Sale and the NGG Sale and the issue of new senior debt and hybrid capital securities, as appropriate.

6. Key terms of the Transactions

WPD Acquisition

National Grid Holdings One plc ("**National Grid Holdings**"), National Grid Plc and PPL WPD Limited ("**PPL WPD**") have entered into a sale and purchase agreement (the "**WPD SPA**") pursuant to which PPL WPD has agreed to sell, and National Grid Holdings has agreed to acquire, the entire issued share capital of PPL WPD Investments Limited.

Completion of the WPD Acquisition is conditional upon (a) approval by National Grid's shareholders of the resolutions at the General Meeting, and (b) certain regulatory approvals being received by the date that is three months from signing, or such later date as the parties approve (the "**Long Stop Date**"), subject to two two-month automatic extensions under certain circumstances. Completion is not conditional on approval from the Competition and Markets Authority although National Grid will be making a voluntary filing.

The consideration for the WPD Acquisition is £7.8 billion in cash to be settled at completion. The consideration is subject to a locked box mechanism and accordingly there is a daily ticking fee payable by National Grid Holdings of £548,000 per day from 1 January 2021 until completion, reflecting the dividends that would otherwise be payable by WPD during such period; PPL WPD will also receive a dividend of £140 million from PPL WPD Investments Limited, relating to dividends in respect of 2020 not already paid.

National Grid Holdings has agreed to pay a termination fee of US$150 million to PPL WPD if the WPD Acquisition does not complete in circumstances where the Board changes its recommendation (an "**Adverse Recommendation Change**") in respect of the resolutions. National Grid Holdings has agreed to reimburse the expenses of PPL WPD up to a maximum of US$50 million in the event that the resolutions are not passed at the General Meeting where an Adverse Recommendation Change has not occurred.

The WPD SPA may be terminated if an Adverse Recommendation Change has occurred or the conditions are not satisfied by the Long Stop Date.

National Grid Holdings has obtained warranty and indemnity insurance which, following Completion, will be the sole recourse for any claim in respect of the warranties given by PPL WPD in the WPD SPA, subject to limited exceptions.

NECO Sale

National Grid USA, PPL Energy Holdings, LLC ("**PPL Energy**") and PPL Corporation have entered into a share purchase agreement in respect of the NECO Sale (the "**NECO SPA**") pursuant to which National Grid USA has agreed to sell, and PPL Energy has agreed to acquire, 100% of the outstanding shares of common stock of The Narragansett Electric Company.

The consideration payable by PPL Energy for the NECO Sale is US$3.8 billion (£2.7 billion) in cash, subject to a customary U.S. style completion accounts adjustment. In addition, National Grid USA will receive dividends, of approximately US$52 million for FY21 and an equivalent amount for FY22 on a pro rata basis up to the date of completion.

National Grid USA, PPL Energy and PPL each have made certain customary representations, warranties and covenants in the NECO SPA, which are subject to post-completion indemnification customary for U.S. style transactions.

Completion of the NECO Sale is conditional upon completion of the WPD Acquisition having occurred and receipt of certain antitrust and regulatory approvals in the U.S. and other customary conditions to completion. The NECO Sale is expected to complete before the end of the first quarter of 2022.

The NECO SPA may be terminated by either party if, among other things, the conditions to completion have not been satisfied or waived by the date that is twelve months from signing, subject to two three-month automatic extensions under certain circumstances or if the WPD SPA is terminated. There are no termination fees payable by any of the parties under the NECO SPA.

National Grid USA and PPL Energy will enter into a transitional services agreement in order to ensure a smooth continuation of the services provided by the Group to NECO for an interim period following completion.

7. Intentions for the WPD Group

National Grid admires and greatly values the skills, knowledge and expertise of WPD's existing management and employees and therefore its current intention is to preserve the current WPD organisation, including the existing management team and culture, to ensure continuity of its strong track record. National Grid expects existing WPD personnel to continue to contribute to WPD's success and is therefore committed to attracting and retaining WPD talent. National Grid intends to maintain the WPD headquarters in Bristol and offices in other key locations, within the Group, and for WPD to be an important pillar of National Grid's UK business going forward.

8. Financial effects of the Transactions and dividend policy

The Transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term.

Following the WPD Acquisition, National Grid's overall portfolio mix is expected to continue to deliver strong asset growth as well as superior long term regulated asset base growth, which alongside attractive returns are expected to continue to deliver a strong cash generation profile and further underpin our sustained progressive dividend policy.

On 2 March 2021, the Board announced that it had reviewed the Group's dividend policy in light of the RIIO-2 Final Determination and that from FY2021/22 onwards, the Group's dividend policy will aim to deliver annual dividend per share growth in line with UK CPIH inflation. The Board confirms that this policy is unaffected by the proposed transactions which further support this dividend policy.

National Grid remains committed to retaining an efficient balance sheet and a strong overall investment grade credit rating going forward

9. Expected timetable to Completion

The WPD Acquisition is a Class 1 transaction under the Listing Rules and is therefore conditional upon the approval of shareholders at a General Meeting. National Grid will shortly publish a shareholder circular containing further details of the WPD Acquisition, the Board's recommendation, and the notice of the General Meeting which is expected to be held in late April 2021. Completion of the WPD Acquisition is expected to occur within the next four months and completion of the NECO Sale is expected to occur before the end of the first quarter of 2022.

FURTHER INFORMATION ON WPD, NECO AND NGG

Information on WPD

The WPD Group had gross assets of £16.0 billion at 31 March 2020 and reported a profit before tax of £750 million for the financial year to 31 March 2020.

The operations of each of the four DNOs owned by WPD are regulated under a distribution licence which, in conjunction with the agreed RIIO-ED1 regulatory framework, sets the requirements that WPD needs to deliver for its customers and the associated revenues it is allowed to earn for the eight-year period from 1 April 2015 to 31 March 2023. In addition to the base level of revenue which the DNOs are allowed to earn, there are incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions. The achievement or not of these targets can result in revenue rewards or penalties relating to these activities.

In addition to the DNOs, the WPD Group also consists of other smaller subsidiaries including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNOs and network related activities of the WPD Group, and they also provide certain services to third parties. The WPD Group also owns property companies to facilitate the management of non-network and investment properties of the WPD Group. These smaller subsidiaries, other than the property companies, generated an EBITDA of £11 million in the year to 31 March 2020. The property companies own properties with an asset value of £94 million at 31 March 2020.

Information on NECO

NECO had gross assets of US$5.2 billion at 31 March 2020 and reported an operating profit of US$206 million and net profit of US$122 million for the financial year to 31 March 2020 under U.S. GAAP.

Its electricity and gas distribution businesses are regulated by Rhode Island Public Utilities Commission and its electricity transmission business is regulated by the Federal Energy Regulatory Commission ("**FERC**"). NECO's service area covers substantially all of Rhode Island, equivalent to approximately 1,045 square miles and with a population in excess of one million. NECO's energy delivery business consists of electricity distribution facilities and a natural gas distribution system that provides utility energy delivery services to residential, commercial and industrial customers within its service area. NECO also owns transmission facilities that are operated by an affiliate, the New England Power Company, which is the designated FERC transmission operator in its service area.

Information on NGG

NGG had gross assets of £10.6 billion at 31 March 2020 and reported a profit before tax of £356 million for the financial year to 31 March 2020.

IMPORTANT NOTICES

Persons into whose possession this announcement comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this announcement and the transactions referred to herein. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this announcement should not be construed as legal, business or tax advice.

Notice to all shareholders

Any reproduction or distribution of this announcement, in whole or in part, and any disclosure of its contents or use of any information contained in this announcement for any purpose is prohibited.
The contents of this announcement should not be construed as legal, business or tax advice. Each shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice, respectively.

Notice to overseas shareholders

The release, publication or distribution of this announcement in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the transactions disclaim any responsibility or liability for the violation of such requirements by any person.

Non-IFRS financial measures

The following non-IFRS financial measures are referred to in this announcement:

- **Asset growth:** 'Asset growth' is the annual percentage increase in our RAV (UK) and rate base (US) and other business balances (including the assets of National Grid Ventures and National Grid Partners) calculated at constant currency.
- **Regulatory asset base:** A regulatory construct based on predetermined principles not based on IFRS. Regulatory asset base effectively represents the invested capital on which National Grid is authorised to earn a cash return. By investing efficiently in its networks, National Grid adds to its regulated asset base over the long term, and this in turn contributes to delivering shareholder value. National Grid's regulated asset base is comprised of the Group's RAV in the UK, plus its rate base in the US.

Exchange rate

Throughout this announcement, unless otherwise stated, the USD to GBP exchange rate used is $1.39 to £1.00.

No profit forecast or estimates

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share ("**EPS**") for National Grid, WPD and the Group (both before and after completion of the transactions), as applicable, for the current or future financial years, would necessarily match or exceed the historical published earnings or EPS for National Grid or WPD, as applicable.

Websites

Neither the content of National Grid's website nor any website accessible by hyperlinks on National Grid's website is incorporated in, or forms part of, this announcement.

Lead transaction advisers

Barclays, Goldman Sachs and Robey Warshaw are acting as joint financial advisers, and Herbert Smith Freehills LLP and Cravath, Swaine & Moore LLP are acting as lead legal advisers to National Grid in respect of English and New York law respectively, in connection with the Transactions. Barclays are also providing corporate broking advice in connection with the Transactions and acting as sole sponsor to National Grid in respect of the WPD Acquisition.

Barclays Bank PLC, acting through its Investment Bank ("**Barclays**"), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for National Grid and no one else in connection with the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Barclays nor for providing advice in relation to the Transactions or any other matter referred to in this announcement.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for National Grid and no one else in connection with the Transactions and will not regard any other person as its client in relation to the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Goldman Sachs or its affiliates, nor for providing advice in connection with the Transactions or any other matter or arrangement referred to in this announcement.

Robey Warshaw LLP ("**Robey Warshaw**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for National Grid and no one else in connection with the Transactions and will not regard any other person as its client in relation to the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Robey Warshaw, nor for providing advice in connection with the Transactions or any other matter or arrangement referred to in this announcement.

Apart from the responsibilities and liabilities, if any, which may be imposed on Barclays, Goldman Sachs or Robey Warshaw by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the

relevant regulatory regime would be illegal, void or unenforceable, none of Barclays, Goldman Sachs or Robey Warshaw, or any of their respective subsidiaries, branches or affiliates accepts any responsibility or liability whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this announcement, including its accuracy, completeness or for any other statement made or purported to be made by any of them, or on their behalf, in connection with National Grid or the Transactions. Each of Barclays, Goldman Sachs and Robey Warshaw and their respective subsidiaries, branches and affiliates accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) in respect of this announcement or any such statement or otherwise.

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 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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 those relating to the RIIO-2 price controls as well as uncertainty around economic recovery following the COVID-19 pandemic; 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; and customers and counterparties (including financial institutions) failing to perform their obligations to National Grid. 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 National Grid 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 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 National Grid 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 National Grid'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. 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 227 to 230 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 2020 published on 12 November 2020. 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. In relation to the Transactions these forward-looking statements will be qualified by the risk factors described in Part II (Risk Factors) of the shareholder circular which is expected to be published shortly. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this announcement.

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Proposed acquisition of **Western Power Distribution** and **Strategic Portfolio Repositioning**

London, 18 March 2021

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. 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John Pettigrew

Chief Executive

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Transforming our business, leading the energy transition

Our priorities

- Deliver for our customers efficiently
- Grow organisational capabilities
- Empower our people for great performance
- Enable the energy transition for all



to be at the heart of
a clean, fair and affordable energy future

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A strategic transformation

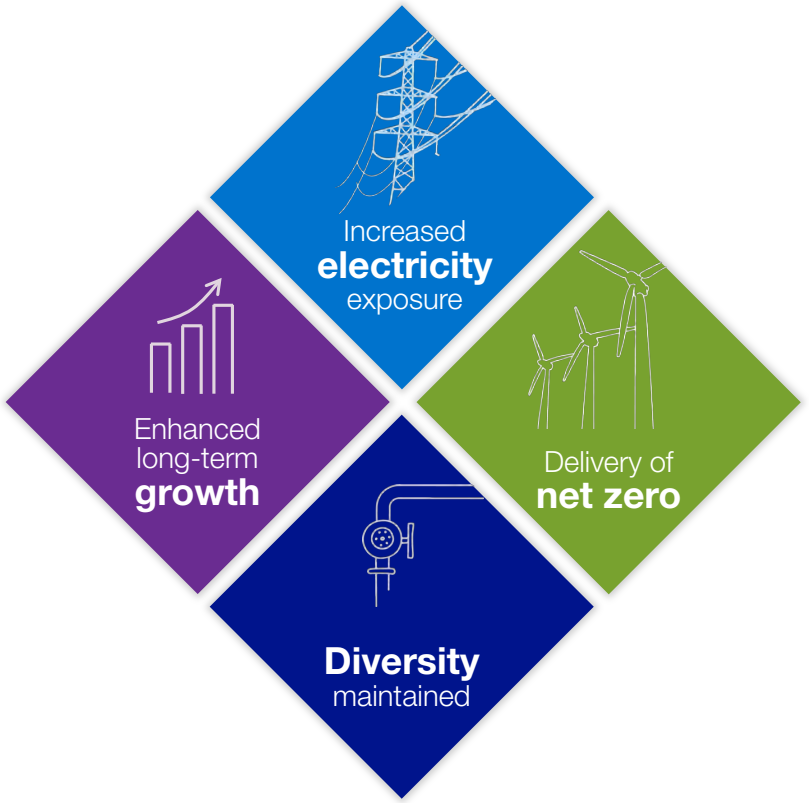
- Significantly improves strategic positioning and long term growth
- Puts National Grid at the heart of delivering net zero
- Attractive financial returns for shareholders

Transformative strategic fit

- Combined transaction agreed with PPL Corporation:
  - Acquisition of **Western Power Distribution** (WPD) for equity value of £7.8bn
    - UK's largest electricity distribution network operator
  - Sale of our **Rhode Island** business for equity value of $3.8bn (£2.7bn[1])
- Announcing an intention to sell a majority stake in our **UK Gas Transmission** business
- Two **complementary** businesses – a compelling combination

  WPD
  - Low cost and local delivery strength
  - Customer focus and strong operational performance

  National Grid
  - Engineering expertise
  - Experience in modernising electricity distribution networks



1. Assumed GBP/USD FX rate of 1.39.

Accretive earnings and stable credit metrics

Attractive financial returns for shareholders

- Strong growth profile of WPD and potential for outperformance
- Expected strong cash flow and returns greater than cost of capital
- Valuation of WPD based on conservative assumptions for future regulatory returns
- Achieved premium valuation for Rhode Island business
- Confidence in value of UK Gas Transmission business

Following completion of three deals

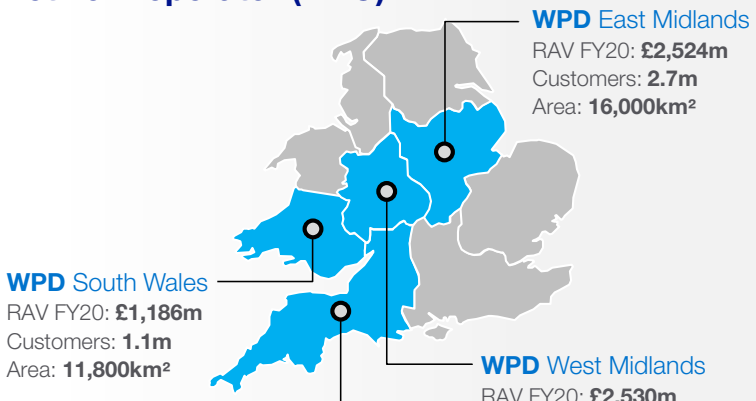
- Superior growth opportunity - enabling 5-7% range for longer
- Improves earnings growth and dividend cover
- Further underpins recently updated dividend policy
- Earnings accretive
- Expect metrics to remain consistent with current ratings

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WPD business summary

One-off opportunity to gain a scale position in UK electricity distribution

UK's largest electricity distribution network operator (DNO)



Network comprises
~90,000 km of overhead lines
~135,000 km of underground cable
188,000 transformers

Key highlights

£8.8bn
Estimated RAV
FY2022

5%
Annual RAV CAGR[1]
delivered for ED1 period

6,500
Employees

7.9million
Customers

Key financials

£m	FY18	FY19	FY20
Revenue	1,621	1,686	1,724
EBITDA	1,168	1,193	1,241
Net Income	586	605	549
RAV	7,355	7,698	8,000

1. Regulated asset base compound annual growth rate based on Ofgem publication.

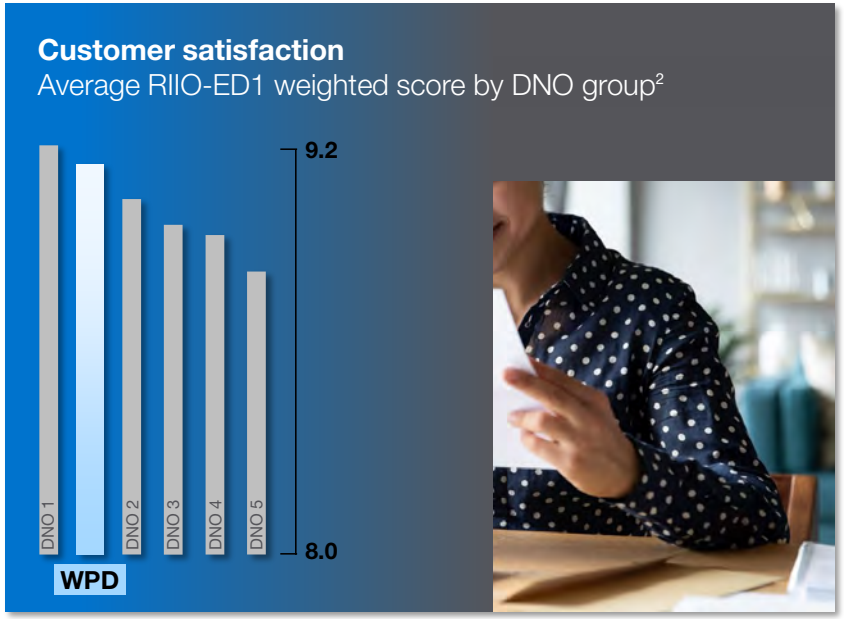
WPD a leading Distribution Network Operator

Strong regulatory track record with Ofgem
fast tracked during RIIO-ED1

9.9%
RoRE operational performance
over ED1 to date[1]

Leading
customer satisfaction

Highly experienced
management team



1. Cumulative Return on Regulatory Equity for the RIIO ED1 regulatory years up to and including 2019/20, using 65% notional gearing; before debt and tax performance
2. Ofgem RIIO-ED1 Network Performance Summary 2019-20

A strong strategic fit

Strong electricity demand growth



Improved growth outlook



Net zero delivery



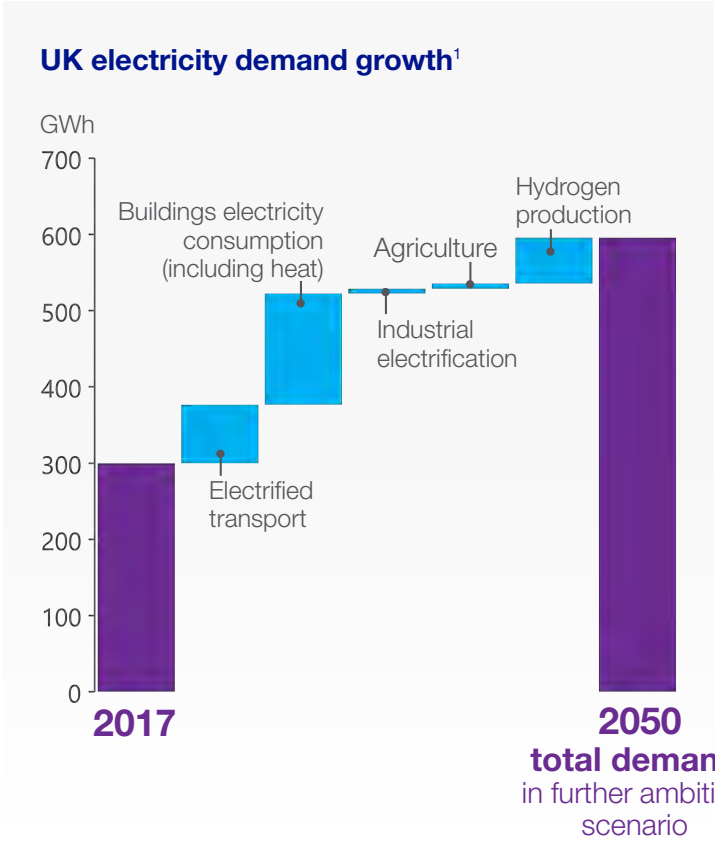
Benefits of diversity maintained



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Increases electricity footprint

- A changing energy landscape
  - Increased renewable generation
  - Growth in electric vehicle penetration
  - Electric heating solutions for homes, offices and buildings
- Electricity demand potentially doubles by 2050
- National Grid positioned to play a pivotal role in enable growing role of electricity



1. **Source:** Committee on Climate Change, Net Zero Technical Report, May 2019

An improved growth outlook

WPD brings high quality assets with attractive growth

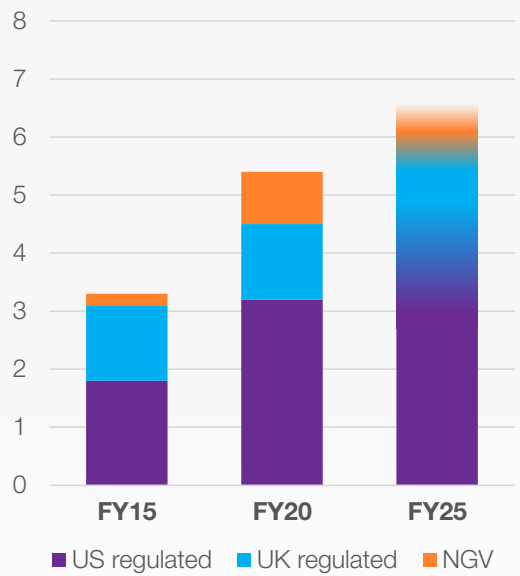
c.5% RAV CAGR[1] over 6 years

Delivering a cleaner, smarter energy system

Investment expected to rise
c.20% from ED1 to ED2

5-7%
Group asset growth underpinned

Capital investment by segment[2] (£bn)

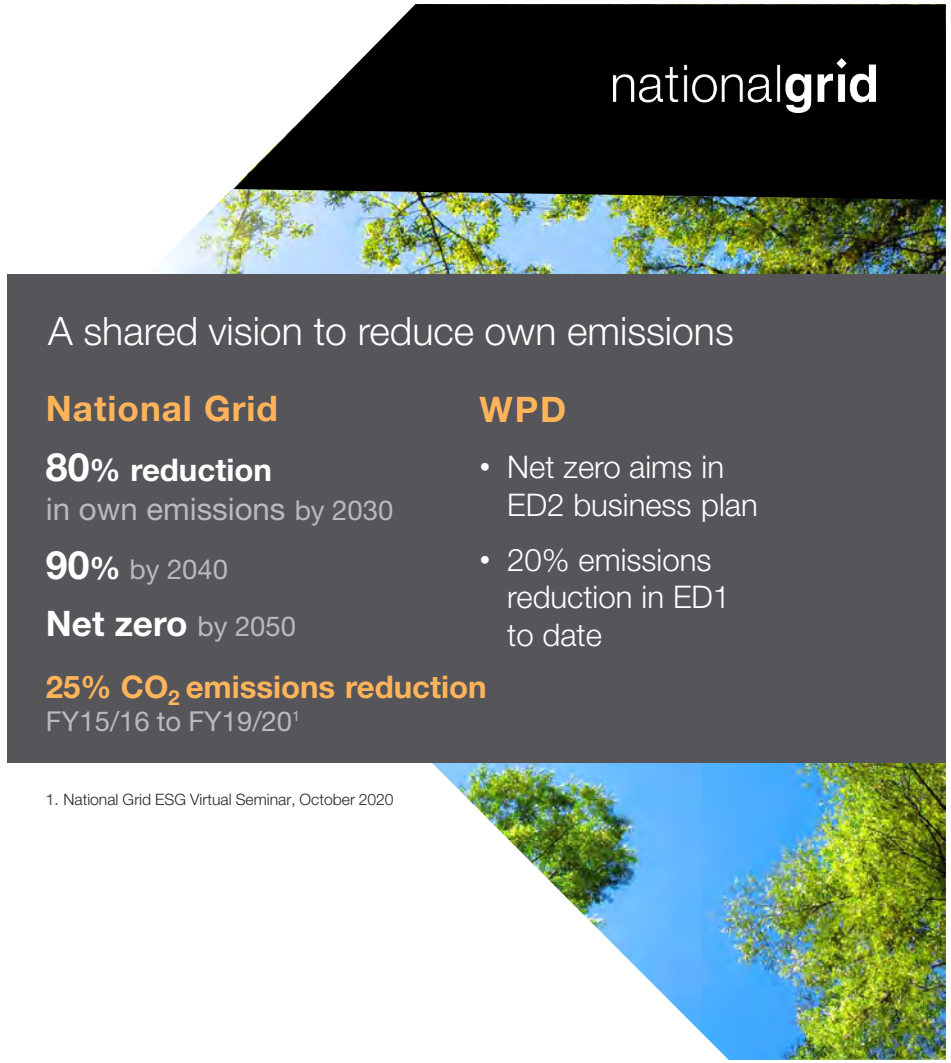


1. Regulated asset base compound annual growth rate
2. FY25 illustrative only. Assumes illustrative 51% disposal of UK Gas Transmission and divestment of Rhode Island

Delivering net zero

A holistic approach

- Faster more efficient delivery across transmission and distribution
- Smarter networks to deliver more renewable energy connections
- Electric vehicle charging infrastructure
  - National: £950m Rapid Charging Fund
  - Local: Enable up to 3m electric vehicles by 2030
- Sharing best practice
  - Engineering solutions
  - Customer solutions



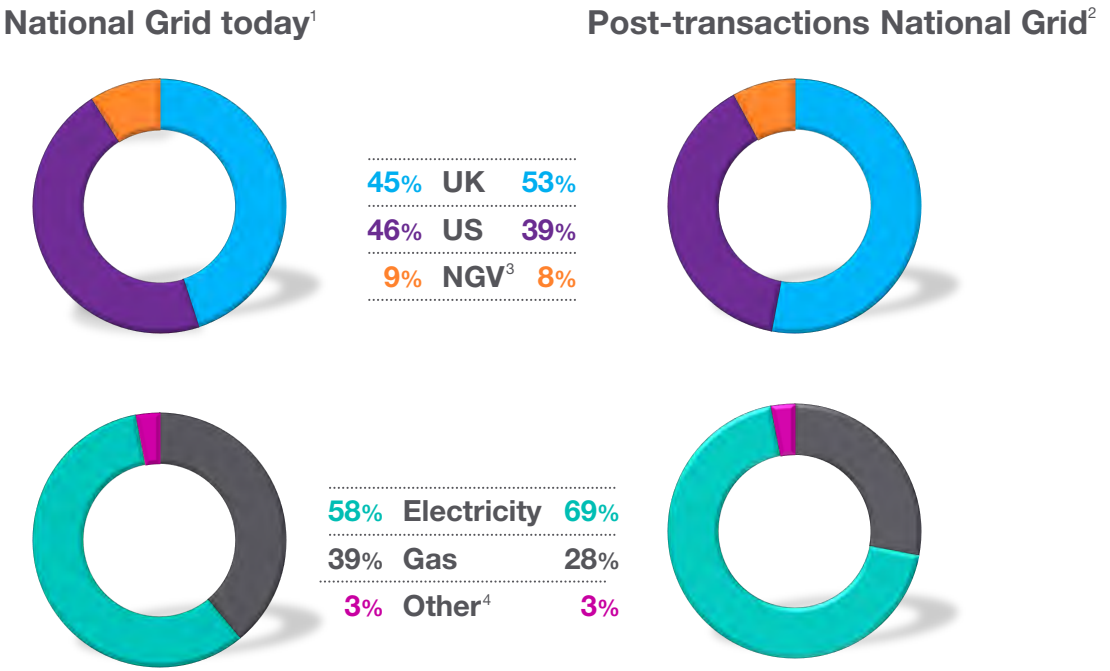
Electricity-oriented portfolio with regulatory diversity

National Grid remains geographically balanced

with the US regulatory assets
c.40% of the Group

Step-change in electricity's portfolio contribution

to be
c.70% of the Group



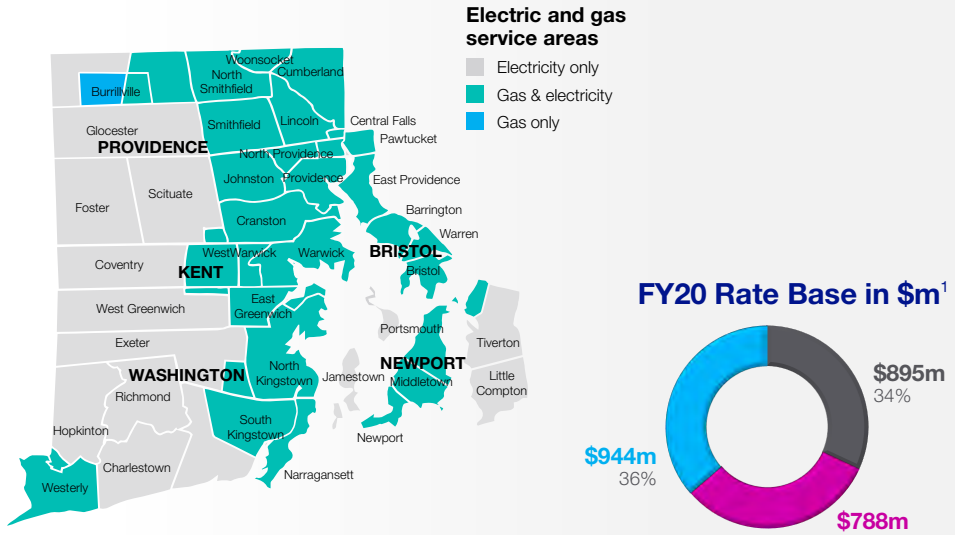
1. Proportion of FY2020 asset base
2. Calculated as proportion of FY20 asset base basis, assuming illustrative 51% disposal of UK Gas Transmission
3. National Grid Ventures and Other
4. Includes US Service Co, NG Partners, Property and UK Other Assets (Corporate).

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Rhode Island business summary

Divestment does not materially change National Grid US asset mix or growth

Geographic footprint



506,000 electric customers
273,000 gas customers
>700 employees

FY20 Rate Base in $m[1]

Key highlights

- Largest electricity transmission & distribution service provider as well as a natural gas distribution company in Rhode Island
- Electric and gas distribution business regulated by Rhode Island Public Utilities Commission; electric transmission business regulated by the FERC
- $2.6bn rate base ($1.8bn distribution, $788m transmission) as at March 2020
- Net debt of $1.4bn (£1.0bn) as at 31 March 2020

Key financials[1]

£m	FY18	FY19	FY20
Revenue	1, 063	1,188	1,207
Net Income	91	84	95
Rate Base	1,576	1,854	2,119

1. Company Information, US GAAP, £m at an average FX rate of $1.36/1.31/1.29 for FY18/FY19/FY20 Revenue and Net Income and $1.40/1.30/1.24 for Rate Base

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Andy Agg

Chief Financial Officer

Transaction details

WPD

£7.8bn equity value[1]

£6.4bn assumed net debt

- **£8.8bn** March 2022 RAVe[2]
- Attractive growth profile
- **£750m** FY20 profit before tax
- **£1bn** average annual capex over RIIO-ED1

Rhode Island

£2.7bn consideration[1]

£1.0bn ($1.4bn) assumed net debt[1]

- Partially repays cost of acquiring WPD
- Attractive valuation
- FY20
  - **$206m** operating profit[3]
  - **$122m** net profit[3]

UK Gas Transmission

£6.4bn March 2022 RAVe[2]

- Intention to sell majority interest, including gas metering
- **£356m** FY20 profit before tax[4]
- Plan to launch a sale in 2H 2021

1. Assumed GBP/USD FX rate of 1.39 and subject to customary closing adjustments
2. RAVe: estimated regulated asset value
3. US GAAP basis
4. National Grid Gas plc

Financial impact

Financing

- Bridge facility in place to fully cover WPD purchase
- Proceeds from Rhode Island and UK Gas Transmission businesses to repay bridge facility[1]
- UK Gas Transmission sale process expected to be launched in second half 2021

Portfolio

- Earnings accretive
- Expect to maintain current credit rating

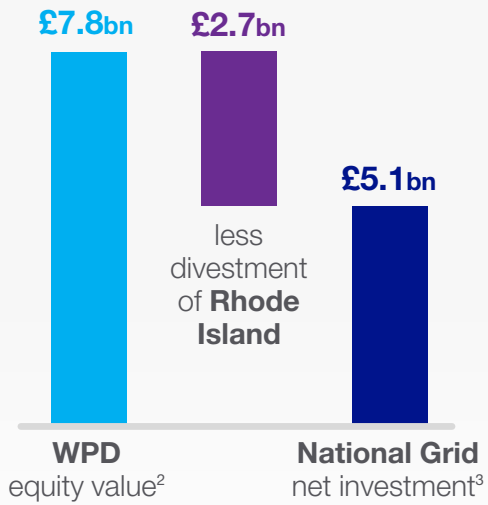
Dividend

- Dividend cover metrics enhanced
- Further underpins updated CPIH-linked dividend policy

1. Any remainder to be refinanced with new debt

Funding overview (equity basis)

National Grid Contribution



2. Subject to customary closing adjustments
3. Rhode Island is conditional upon WPD completing, but WPD is not conditional on Rhode Island completing

Delivering further value for shareholders

Further significant upside potential

Valuation of WPD reflects

- Conservative assumptions on baseline returns

Further upside potential

- Opportunities to drive outperformance on totex
  - Strong track record of delivery
- Opportunities on incentives

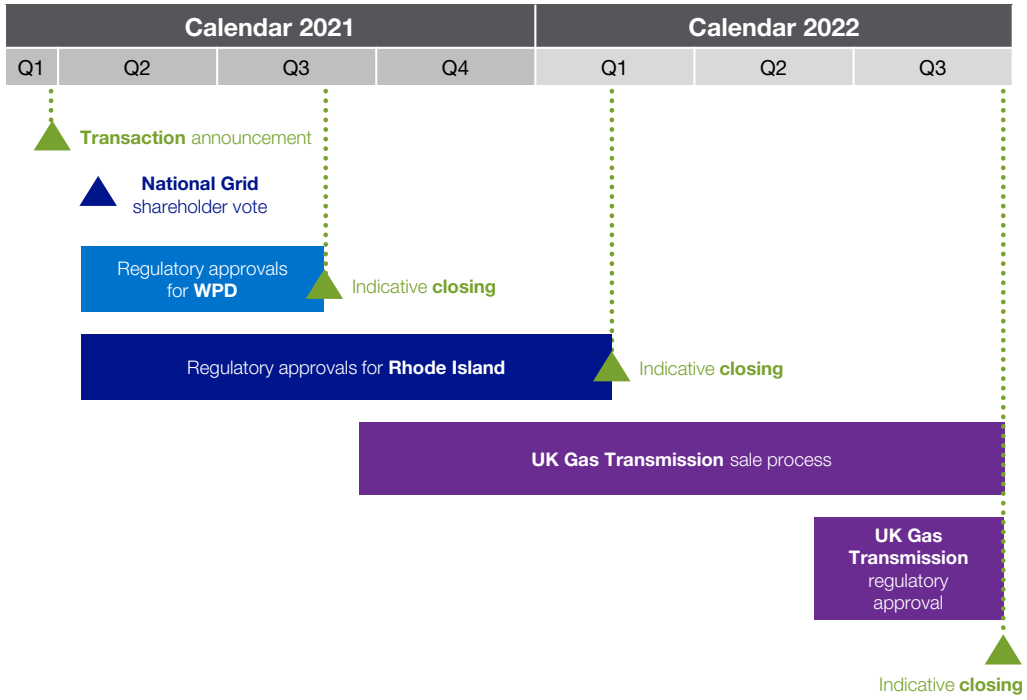
Sharing best practice to drive performance

- Digital innovation
  - Streamline connection process
  - Improve asset reliability
- Leading customer satisfaction



Timetable and regulatory considerations

Overall timeline summary



Timing of key steps

WPD

- Shareholder meeting to approve acquisition of WPD expected by the end of April 2021
- Technical filings to be submitted with FCA and Guernsey equivalent
- Voluntary CMA filing
- Expected to complete within the next four months

Rhode Island

- Relevant regulatory approvals required
- Expected to complete in Q1 2022

UK Gas Transmission

- Intention to launch process for sale of a majority stake in Q3 2021
- Expect process to completion will take c.12 months

Conclusion

Transforms National Grid's strategic position

- Increased focus on electricity
- One-off opportunity to establish scale UK Electricity Distribution
- Enhances 5-7% growth for longer

Foundation for growth and shareholder returns

- Earnings accretive
- Expect to maintain current credit rating
- Further underpins dividend policy and long-term sustainability

Geographic and regulatory diversity maintained



Puts **National Grid** at the heart of a clean, fair and affordable energy future

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Q&A

To ask a question, please dial in as below

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United Kingdom (Toll Free) **0800 640 6441**
United States (Local) **1 646 664 1960**
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Proposed Acquisition of Western Power Distribution and Strategic Portfolio Repositioning

18 March 2021

National Grid

Nick Ashworth, Director of Investor Relations

John Pettigrew, Chief Executive Officer

Andy Agg, Chief Financial Officer

Questions

Dominic Nash, Barclays

John Musk, RBC

Chris Laybutt, Morgan Stanley

Deepa Venkateswaran, Bernstein

Jenny Ping, Citi

Mark Freshney, Credit Suisse

Martin Young, Investec

James Brand, Deutsche Bank

Sam Arie, UBS

Ahmed Farman, Jefferies

Javier Garrido, JP Morgan

Nick Ashworth, Director of Investor Relations
Good morning, everyone, and welcome to our call to discuss our announcement of the proposed acquisition of Western Power Distribution and the strategic portfolio repositioning.

I'm Nick Ashworth, and I'm Head of Investor Relations here at National Grid. Thank you for joining us remotely, and I hope everyone is safe and well.

As always, I'd like to draw your attention to the cautionary statement that you'll find at the front of our presentation. And, after the presentation, as usual, the IR Team will be available, by phone, to help if you have any further questions.

As so, with that, I'd like to hand over our CEO, John Pettigrew. John.

. . . . . .

John Pettigrew, Chief Executive Officer
Thank you, Nick. And good morning, everyone. And thanks for joining this call at such short notice.

As usual, I'm joined by our CFO, Andy Agg, and, as you'll have seen from our press release, there's a lot to talk about this morning.

We've announced three significant and connected transactions; the proposed acquisition of Western Power Distribution, or WPD, here in the UK, the sale of our Rhode Island business in the US, and the intention to initiate a sale of a majority stake in our UK Gas Transmission business later this year.

As I've said on many occasions, our vision at National Grid is to be at the heart of a clean, fair and affordable energy future. We'll do this through the execution of our strategic priorities, which are to deliver for our customers efficiently, to grow our organisational capabilities, to empower our people for great performance, and to enable the energy transition for all.

It's with this vision in mind that I'm hugely excited about what the combination of these transactions will bring. They will significantly improve National Grid's strategic positioning whilst enhancing our long-term growth prospects. They will put National Grid at the heart of delivering net zero across the UK electricity sector, and they will deliver attractive financial returns for our shareholders.

Over the next 20 minutes or so, we'll discuss the strategic and financial rationale for these transactions and how they strengthen our future growth outlook. Andy and I will be happy to take your questions at the end of this.

Starting with the detail - we've agreed to acquire WPD, the UK's largest electricity distribution business, from the US utility, PPL, for an equity value of £7.8bn. At the same time, as part of this transaction, we've agreed to sell to PPL our Rhode Island business for an equity value of $3.8bn, or £2.7bn.

In addition, we're announcing our intention to initiate the sale of a majority stake in our UK Gas Transmission business.

We'll be ready to launch a sales process sometime in the second half of this year, and we'd expect the process to completion to take about a year.

We intend to fund the equity element of the WPD consideration with bridge financing, with proceeds from the sale of Rhode Island as well as proceeds from the sale of UK Gas Transmission being used to pay this down in time.

We currently expect that we'll complete the acquisition of WPD within the next four months, with Rhode Island completing in Q1 2022.

As I mentioned at the outset, I'm very excited about how these transactions will transform National Grid's shape, increasing our exposure to electricity and enhancing the long-term growth profile of the Group. Furthermore, they strengthen our core ambition, which is to enable the energy transition for all.

For those of you who have followed our story over the years, you'll know that we've a great track record of delivering shareholder value through portfolio repositioning, both large and small. This has taken the form of largescale acquisitions, with our purchase of the KeySpan business in 2006, and also crystallising shareholder value from existing assets, with the more recent sale of our UK Gas Distribution business.

The transactions we're announcing today represent the next stage of our journey.

The WPD acquisition allows National Grid to bring together two complementary businesses. WPD offers low-cost and local operational strengths which, in combination with our engineering excellence and significant experience of owning and modernising electricity distribution networks in the US, offers a compelling combination.

It will also allow a greater focus on the customer, given WPD's leading industry performance, with a great opportunity to drive improvements across our existing UK and US businesses.

The pivot from gas to high-growth electricity in the UK will underpin the long-term growth outlook for the Group and enhance our role in the UK's energy transition.

And, despite our agreement to sell our Rhode Island business, we'll continue to benefit from regulatory diversification with around 40% of Group assets continuing to be in the US.

These transactions will also deliver attractive financial returns for our shareholders. We believe the fair price that we paid for WPD reflects the exciting growth opportunity and potential for continued outperformance in the future, WPD's strong cash flow and returns that will be above our cost of capital, our conservative assumptions around future regulatory returns, and the benefits we can derive and share with our customers.

In addition, we've achieved an attractive valuation for our Rhode Island business, and are confident in being able to generate a premium valuation for UK Gas Transmission, given its attractive cash flow profile and growth optionality.

On completion of these three transactions, the growth expectations for our electricity distribution will enable us to grow at our 5-7% range for longer, which, in turn, translates to superior earnings growth and stronger dividend cover, which will further underpin the recently announced updated dividend policy.

The transactions are expected to be significantly earnings accretive from Year 1 and continue to be earnings accretive post the UK Gas Transmission sale in the longer term.

We expect to deliver all three transactions whilst retaining our current credit rating.

I'd now like to spend a few minutes focusing on the main transaction we've announced of our acquisition of WPD. This is a one-off opportunity to gain a scale position in UK electricity distribution, which is expected to see a high level of asset growth as a result of the ongoing energy transition.

WPD is the UK's largest electricity distribution network operator, or DNO, with a forecasted March 2022 regulated asset base of £8.8bn, having grown by around 5% per annum over the past six years.

It's responsible for four networks across the East and West Midlands, South Wales, and South West England. Altogether, it has more than 6,500 employees, and serves nearly eight million customers.

And, in addition to its size, WPD is also one of the best-performing operators in the UK, with a fantastic track record of delivery.

Firstly, it's demonstrated a great track record of stakeholder engagement, and was the only DNO to be fast-tracked by Ofgem in the RIIO-ED1 price control.

Secondly, it's delivered very strong operational performance, with customer engagement ranked towards the top of its peers throughout the current regulatory period.

Thirdly, its financial performance is strong, consistently delivering best in class returns. And, finally, it's led by a strong and highly experienced management team.

I've known Phil Swift, WPD's CEO for many years, and look forward to working closely with him and his team to continue to deliver the great performance WPD's employees and customers have come to expect.

The integration of WPD into National Grid will bring complementary strengths to the Group as we move along the energy transition pathway.

There are four strategic benefits of the transaction for us that I particularly want to highlight. Firstly, the increasing growth of electricity, and our key role as the UK's largest transmission and distribution owner. Secondly, the improved growth outlook for the Group. Thirdly, our enhanced role in the energy transition. And then, finally, the continued benefit of geographic and regulatory diversity.

Starting with our increased electricity footprint, on completion of the transactions, nearly 70% of Group assets will be focused on electricity, up from around 60% today. That's very significant at a time when electricity demand is expected to rise substantially in the years ahead.

Across both our UK and US footprints, the coming decades will see the acceleration of renewable generation, in particular offshore wind, greater levels of decentralised generation and battery storage. We'll see enormous growth in electric vehicle

penetration, and a significant change in the way we heat our homes, with electric heating solutions growing to complement the acceleration of clean gas alternatives.

The core scenario set out by the Committee on Climate Change sees a 70% increase in UK demand by 2050, and sees demand potentially doubling under the further ambition scenario. These are in line with the scenarios set out by the National Infrastructure Commission and the future energy scenarios work, published by the Electricity System Operator.

The outlook, therefore, for both Electricity Transmission and Distribution, is extremely exciting. As the largest electricity transmission and distribution owner in the UK, we'll play a pivotal role in enabling growing levels of electrification, with investment levels and growth set to remain elevated across our networks as we look ahead through this decade and beyond, which brings me to the growth outlook.

Overall, we see these transactions materially improving the Group's long-term growth outlook given the multi-decade changes we see ahead for the electricity sector. Simply put, we're transitioning from £8bn of regulated asset base in the UK Gas Transmission and Rhode Island, to a similar-sized WPD business, but with a much stronger growth outlook.

WPD's regulated asset base has grown by around 5% per annum over the past six years, and its draft ED2 business plan expects investment levels to rise 20% from ED1 to facilitate the smarter electricity networks that will be required.

With the transactions retaining our current strong investment grade credit rating, there is sufficient headroom to take advantage of these growth opportunities as they emerge, delivering a cleaner energy system and attractive returns for our shareholders.

So, as we transition our UK business to higher growth electricity distribution with the WPD acquisition, we expect Group asset growth to be in our 5-7% range for longer.

This transaction also enhances the pivotal role we'll play in the delivery of net zero, and places National Grid at the heart of the energy transition. It will enable us to deliver a more holistic approach across the entire UK electricity sector, helping the UK's wider net zero ambitions.

An area where combining WPD within National Grid can help deliver customer and shareholder value, whilst delivering the energy transition, is around renewable connections and the development of smarter networks. There have been around 50 gigawatts of renewable generation connected to the UK electricity network to date, with over six gigawatts of renewable connections to our transmission network in RIIO-T1, and WPD already having connected 10 gigawatts of distributed generation and storage.

Together, our high and low voltage engineers will be able to share their knowledge and experience to efficiently deliver increasing levels of renewable connections, both large and small.

Another example is across EV charging infrastructure. In our Transmission business, we've worked with the UK Government on the £950m Rapid Charging Fund which will help to deliver ultrafast charging infrastructure at a national level across motorway service stations.

At the local level, WPD is looking to deliver over 200,000 charging points across its territory by 2023 as part of its roadmap to deliver enough connections by 2030 to allow up to three million EVs. This is a great example of where we'll be able to share best practice across engineering and customer solutions to help drive a more effective EV rollout.

Finally, these transactions keep the attractive geographic and regulatory diversity of the Group intact and allows the Group to capture growth opportunities as they arise across our businesses.

Whilst our sale of Rhode Island, at a very attractive valuation for shareholders, was a key differentiator in helping us to secure the WPD acquisition, it hasn't altered our US business or our strategic aims materially. For context, we still plan to invest capex of more than $4bn per year in the US.

Following closing of the Rhode Island sale, and assuming the sale of a majority stake in our UK Gas Transmission business, we still expect to have around 40% of our assets in US networks versus 50% in UK networks. This diversity brings value to our customers and to our shareholders as work alongside different regulators enables us to share best practice between rate plans.

By increasing our UK regulatory footprint with these transactions show that we continue to believe the UK will remain an attractive place to invest, with the right support to innovate, as the UK moves forward with its ambitious net zero goals. Whilst we're making a technical appeal to the CMA around the cost of equity in outperformance wedge for RIIO-T2, we believe the independence of the CMA shows the resilience of the UK Regulatory Framework.

We'll continue to work with the Government, Ofgem and all stakeholders to promote and evolve the Regulatory Framework which supports innovation, drives fair returns for our shareholders whilst delivering an energy transition for all our customers.

Although the Group will have a larger electricity exposure in future, our US Gas Distribution business leaves us well-positioned to continue to deliver strong growth. This will be driven by the need to maintain system safety and reliability as well as optionality around clean gas investments.

As a core part of the Group portfolio, it continues to underpin the delivery of our investor proposition.

And, staying with the US, I just want to spend a couple of moments talking about Rhode Island.

Today's announcement sadly signals the end of the Group's involvement in Rhode Island. It's a great business, and we'll be handing it over to a great new owner.

I'd like to take this opportunity to put on record a heartfelt thank you from me and the team to all our fantastic colleagues who have worked so hard over the years to deliver the energy needs for our customers across the state. We wish them continued success for the future when the time comes for them to transition across to PPL.

So, with that, I'll now hand over to Andy to talk through the financial details of the transactions before coming back for your questions.

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Financial Update

Andy Agg, Chief Financial Officer
Thanks, John, and good morning, everyone.

So, moving to the transaction details - in relation to WPD, the cash consideration will be £7.8bn and net debt, as at 28th February, was £6.4bn.

WPD generated profit before tax of £750m in the full year to March 2020 and has invested around £1bn of capex per annum on average throughout RIIO-ED1.

The cash contribution we'll pay for WPD will be partly funded through the sale of our Rhode Island business. PPL will pay $3.8bn for the acquisition of this business, which generated operating profit of $206m, a net income of $122m to March 2020 under US GAAP.

The sale of our Rhode Island business is conditional on the completion of the WPD acquisition, with the purchase of WPD expected to be completed ahead of the sale of Rhode Island.

The third transaction is the announcement of our intention to initiate a sale of the majority stake in our UK Gas Transmission business, including our metering business, later this year. UK Gas Transmission delivered profit before tax of £356m in the full year to March 2020. We expect to launch this process in the second half of this year.

Confirmed debt funding is in place today 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 John has already described.

The transactions are expected to be significantly earnings accretive from Year 1, and, taken together with the UK Gas Transmission sale, are expected to continue to be earnings accretive in the longer term. This will improve dividend cover, further supporting our recently announced updated dividend policy to grow the dividend in line with CPIH from our next financial year.

As John has mentioned, whilst this was a competitive process, we believe we've paid a fair price for WPD. Our valuation of the business focused on the cash flow generation we believe the assets can generate, taking into account conservative assumptions around baseline returns as well as our view on the financial benefits the transactions will bring, which will be shared with our customers, and also considering the opportunities we see to drive outperformance on totex, in particular given the strong track record of delivery

that we bring and the opportunities around incentives where WPD has a strong track record of performance.

In addition, the transaction presents a great opportunity to share best practice and drive performance improvement across our businesses, delivering benefits for our customers. As an example, in the UK, both National Grid and WPD are developing new digital platforms that will help customers connect new forms of generation to our networks more efficiently by giving them access to the right data, standardising connection design and providing a smoother, easier customer journey.

And across National Grid's US Electricity Distribution business, and WPD's UK business, we're utilising satellite imagery, data science and artificial intelligence to improve reliability and also improve customer satisfaction.

There are many examples like these of ways the businesses can continue to deliver best in class customer satisfaction levels, as WPD, in particular, has shown through ED1, as well as strong operational performance and financial returns, as both companies have delivered through RIIO-1, and this will benefit all our stakeholders.

We're comfortable that all this will drive returns above our cost of capital, leaving us well-placed to capture the growth opportunities, that John has outlined, across electricity distribution in the years ahead.

This next slide sets out the timeline for the transactions. We'll shortly be sending out the circular with the shareholder vote to be scheduled by the end of April. Alongside a required shareholder approval vote for the WPD acquisition, there are technical filings required with the FCA and its Guernsey equivalent.

The WPD transaction is not conditional on CMA approval, however we will submit a voluntary merger notification to the CMA as soon as possible. We do not anticipate competition issues and are aiming to achieve clearance at the end of Phase 1, most likely before the end of September.

We'd expect the process to take a little longer for completion of the sale of our Rhode Island business as it will require approvals from relevant US regulators. We, therefore, expect completion of Rhode Island by Q1 2022.

We'll look to launch the process for the sale of a majority stake in our UK Gas Transmission business in the second half of this year. And, as with the sale of our UK Gas Distribution business, we'd expect the process to completion to take about a year.

With that, I'll hand you back to John.

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John Pettigrew, Chief Executive Officer
Many thanks, Andy.

Taken together, these transactions give us the foundation from which to continue delivering shareholder value through both dividend and asset growth.

Together, they transform National Grid's shape and positioning, increasing our focus on electricity at a time of significant change across the sector.

They give us a one-off opportunity to establish a scale position in UK electricity distribution, and offer compelling opportunities for future growth, thereby enhancing our ability to deliver in our 5-7% asset growth range for longer. This will further underpin the dividend for the long term.

Our vision is for National Grid to be at the heart of a clean, fair and affordable energy future.

Following these transactions, National Grid will be the UK's largest electricity transmission and distribution owner, having an even greater role to play in helping the country meet its net zero target.

Thank you for listening. With that, Andy and I will be happy to take any questions you have.

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Questions and Answers

Telephone Operator
Ladies and gentlemen, as a reminder, please press *1 on your telephone keypad to ask a question.

The first question comes from Dominic Nash of Barclays. Dominic, your line is open.

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Dominic Nash, Barclays
Good morning, everyone, and congratulations on this deal, and also congratulations on keeping it under the radar so well as well.

A couple of questions from me, please.

So, first of all, the size of the premium to RAV for WPD, I think, it's around about 60%, if you could just confirm that. And, to justify that, we're going to need to have returns probably significantly above the cost of capital, as you have already said. Have you got a view of what scale of outperformance is needed, or you assume, to justify this valuation? And then, sort of, the second half of the first question this is, is that what do you think the response of Ofgem will be to this acquisition on their sort of Final Determination?

And, secondly, on the Gas Transmission sale, could you give us a clue as to what the range of a definition of a majority sale is? Is this similar to the narrative that we had around the sale of Gas Distribution, which I think also started off as a majority sale and then ended up being a complete sale? And do you think you're going to achieve a similar multiple to that as you have seen for WPD? Thank you.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Dominic.

Why don't I start by talking about how we thought about valuation. So, we don't think about it in terms of premium to RAV. I think that's overly simplistic. It doesn't really take into account things like growth and outperformance.

So, the way that we've thought about it really, is in four sort of different areas. So, firstly, as Andy said in his remarks, you know, we looked at the fundamentals of the cash flow. So, we've taken a sensible and conservative view around base returns. Given the track record that both National Grid and WPD has around outperformance, you know, we remain confident that there will be opportunities to outperform through innovation.

There will be benefits, of course, through the complementary capabilities that both National Grid and WPD will bring together.

And then, most importantly as well, is that, you know, we believe that electricity distribution - and in my remarks I talked about the growth in demand we expect to see up to 2050 - is going to drive, you know, sustainable, strong growth for many years to come.

So, all of that is fed into our sort of fundamentals of the cash flow, Dominic.

And then the second area, of course, is just the strategic opportunities. As I said in my remarks, it's going to allow us to strategically pivot to better align, I think, with the energy transition. So, we'll ultimately be 70% electricity, 30% gas. It is a unique opportunity to enter in the market at scale.

And it also maintains the balance that we like, both geographic and regulatory between the UK and the US. So, the US will be 40% networks, the UK 50%, and then the remaining 10% National Grid ventures. So, those two things are important, I think, in considering valuation.

The third area I would just emphasise is that WPD has a fantastic management team, and a great track record of operational performance, and that's an important element to consider.

And then, finally, you know, what we've announced today is three transactions, and I think you need to think about them together. So, we've also announced a significant premium and value for our shareholders in the sale of Rhode Island, and we'd expect to crystallise significant value through the sale of Gas Transmission, which remains an attractive business.

So, when we put all of that together, we felt that, you know, what we paid is a very fair price for the opportunity that it presents going forward.

In terms of the level of outperformance, I wasn't going to get into the specifics today, Dominic. As I've said, you know, given the track record of WPD and National Grid in both outperforming on short-term incentives as well as totex, you know, we would be confident that we will continue to be able to find ways to deliver for our customers sufficiently and, with that, be able to deliver outperformance.

The second part of your question, I think, was around the response from Ofgem.

So, we're not anticipating any concerns from Ofgem with regard to this acquisition. Ofgem, as you know, have always been very supportive, in the industry, of businesses adapting to the changing environment. They've also been very consistent in their views that utilities should be thinking about whole system solutions. And, of course, what we're proposing today is going to help massively as we bring those complementary capabilities together.

And then, finally, in terms of Gas Transmission, so what we are announcing today is the sale of the majority stake. So, at least 51% is what we mean by that, Dominic. And, you know, you'll be very familiar with the process that we ran for Gas Distribution, and our intention will be to run a very similar sale. 51% will be, you know, the minimum, so it allows us to deconsolidate off the balance sheet, but specifically what that number will be, you know, time will tell as we run the process.

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Dominic Nash, Barclays
Thank you.

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John Pettigrew, Chief Executive Officer
Okay. I can see that John from Royal Bank of Canada's got his hand up. So, John, do you want to ask your question?

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John Musk, RBC
Yes. Morning, everyone. Two questions from me as well.

I guess, with the Gas Transmission sale, just coming back to that, you're obviously having to sell that partly to fund WPD, obviously, partly for strategic reasons, but do you see, you know, yourselves as a forced seller on that asset? And do you think that could impact the price you may be able to achieve?

And then, secondly, in the US, again, I know it's part of the asset swap in terms of getting out of Rhode Island, but I think you've achieved a two times rate base multiple on that sale. We could argue about where your current businesses are valued in the share price, but does that not signal that perhaps you should be selling more of your US activities to create value for shareholders?

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John Pettigrew, Chief Executive Officer
John, you broke up a little bit. I think I got the gist of the questions which I'm going to ask Andy just to pick up on.

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Andy Agg, Chief Financial Officer
Yeah. Thanks, John.

So, I think your first one was around Gas Transmission, and I think you used the phrase 'forced seller'. So, no, that's not at all how we see it.

Obviously, you know, while it's a clear part of the intent that we've announced this morning, we believe it remains a very attractive asset, well-performing business, and with strong growth optionality, you know, that we've talked about at present times around, sort of, the hydrogen opportunities and other things that, you know, obviously, will bring attractive, you know, options for that business going forward.

So, no, we'll be very disciplined as we go through that process. We're confident though that it will attract, you know, a number of potential owners, and we will run through that process as you'd expect us to.

In terms of the Rhode Island question, you know, a couple of things there. Obviously, the numbers that we've reported today, as you know, with our guidance for the full year, they do represent numbers that have got sort of some COVID impacts going through them, but the rate base multiple that you mentioned is, you know, that's what the numbers demonstrate.

We were very pleased with the valuation on our Rhode Island business as well, as you said, but, no, absolutely, we remain fully committed to the US business remaining a core part of our Group, as John said earlier. The networks in the US remain around 40% today. We'll be continuing to invest, you know, over $4bn as we go forward in the remaining business. So, absolutely remains a core part of driving growth and performance for National Grid.

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John Pettigrew, Chief Executive Officer
Thanks, John.

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John Musk, RBC
Thank you.

John Pettigrew, Chief Executive Officer
I can see Chris from Morgan Stanley's got a question. Chris.

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Chris Laybutt, Morgan Stanley
Good morning, Andy. Thank you very much.

My questions would be just in terms of the net debt. The figures that you've stated, are they book value figures or have been they mark to market for the transaction? Just to give an understanding of how those figures should be treated by us.

And then I guess the real question for us is one of the arguments that the CMA has put forward for the 25 basis points of aiming up additional return, relates to attracting investment. Paying such a premium today, does this put that 25 basis points at risk, do you think?

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Chris. Why don't I ask Andy to do the first question and I'll take the second?

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Andy Agg, Chief Financial Officer
Yeah, again, I think you're asking about the WPD debt value, the £6.4bn, that's booked, absolutely. And, as you can imagine, as we go through, there will be some fair value adjustment flowing through because some of the rates on a number of those bonds, but that's the book value, yeah.

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John Pettigrew, Chief Executive Officer
Chris, in terms of the CMA, so, you know, obviously, everybody's aware that, you know, a couple of weeks ago we accepted a vast majority of the Final Determination of RIIO-T2, but we did refer to the CMA ourselves, as did the other networks, on a technical basis, the return on the cost of equity and the outperformance wedge.

You know, one of the strengths, I think, of UK regulation is that we do have an independent regulator who can look at these technical matters. And, obviously, you will have seen the decision for PR19 yesterday on the water companies.

I think I take confidence from the fact that the CMA will look at the fundamentals and will look at it in terms of long-term need for investment across these networks.

You know, we have set out our views, whether it's evidence that demonstrates that the cost of equity should be higher, if Ofgem would consider that evidence. Based on what I've read yesterday, I remain confident that it was right to make that technical appeal and that the CMA will come to the right answer as they look at RIIO-T2. And, of course, that will influence the returns that we will see in ED2 and going forward as well.

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Chris Laybutt, Morgan Stanley
Okay. Thank you. Thank you very much.

Could I just ask one follow-up, just in relation to that process that you just mentioned? Was today's transaction timed to be announced today, this week, after the CMA, deliberately, or was that just a coincidence?

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John Pettigrew, Chief Executive Officer
It's pure coincidence, Chris. I mean, you're probably aware that the CMA have changed their decision date a couple of times over the last few months, actually, so we weren't actually very clear exactly when it was going to be launched, so it is pure coincidence.

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Chris Laybutt, Morgan Stanley
Thank you. I'm sure we're going to get asked, so thank you. That's very useful.

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John Pettigrew, Chief Executive Officer
Okay. I can see there's a question from Deepa from Bernstein, so why don't we take Deepa's question?

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Deepa Venkateswaran, Bernstein
Thanks, John. I have several questions, actually.

So, firstly, for Andy, just running through some maths, I mean, firstly, do you have any expectations for the valuation of the Gas Transmission asset? Obviously, it'll be lower premium because it's gas, lower growth, etc, so one question is I wanted to try and understand how much new debt do you need to then finally raise after you -

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Andy Agg, Chief Financial Officer
So, Deepa, I think the question was to do with the expectations around Gas Transmission values. Is that right?

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Deepa Venkateswaran, Bernstein
And therefore the new net debt that you need to raise, and do you need to raise any equity hybrids? Like, could you be a bit specific on that?

And then the second question was I read that there was a lock box situation for the WPD asset. Is it similar also for Rhode Island? And, therefore, should we really be looking at the RAV as of today because, you know, you've effectively just already concluded the deal now?

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Andy Agg, Chief Financial Officer
So, I think, on the Gas Transmission, I think, as I said in answer to an earlier question, Deepa, obviously, today, we're announcing that the intent to sell, you know, obviously we believe the Gas Transmission business is an attractive asset, and, you know, we're confident that it will attract a good valuation, but I'm not going to try and speculate on what that might be. We'll obviously, you know, update on that as we go through the process.

Obviously, just be clear though, while we're intent on going through that process, I think your question then said, you know, is there any remaining debt or other issuances? And, just to be clear, as I said this morning, you know, by the time we've succeeded in completing on the Rhode Island transaction, and the majority stake in Gas Transmission, there may be a small portion of bridge that any remainder will be refinanced through either senior debt or hybrid activity in the debt markets, as I mentioned.

So, absolutely no need or intent to issue equity irrespective of the outcome of the Gas Transmission transaction.

And then the final point, I think on the lock box mechanism, yeah - So, I'm sure you're aware, so lock boxes, in the UK, are very consistent, so a well-trod route. The lock box mechanism is in place, and that runs from 1st January. But you'll see in the detail in the RNS, that there's a ticker fee to allow for the time through to completion.

In terms of the Rhode Island transaction, again, because it's in the US, it's slightly different, but there's a standard working capital mechanism in place to ensure there's a true-up for any working capital movements between now and completion as well.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Andy. Thanks, Deepa.

I can see we've got a question from Jenny from Citi. So, shall we take Jenny's question?

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Jenny Ping, Citi
Hi. Morning. Thanks very much. A couple of things.

Can I just press on trying to quantify a little bit in terms of the earnings accretion? From the wording you use, there sounds like there's a single digit, maybe even a low double-digit step up initially, but then, obviously, we've got the disposal coming through from NGG, so we may be back to where we are now, and then earnings accretion thereafter, is that sort of the right profile to think about?

Secondly, just going back to Dominic's questions initially, I'm not asking for a forecast in terms of the RORE outperformance expectation, but what has WPD actually delivered in terms of RORE outperformance? You talk about excellent management etc. What has been the run rate in terms of RORE outperformance?

And then, lastly, just on your other gas assets, clearly, you've said that you're very committed to US as a geographic area, but obviously there are still other gas assets out there. Can you just give us a bit of a feeling in terms of the direction of travel on those? Thanks.

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John Pettigrew, Chief Executive Officer
Yeah. Thanks, Jenny. Why don't I pick up the last one and I'll ask Andy to pick up on the earnings and the RORE?

So, as I said in my remarks, Jenny, so, you know, the US business remains absolutely central to our strategy, and, within that, our Gas Distribution business. So, you know, we continue to see strong organic growth in both Massachusetts and Rhode Island, which is contributing to our investor proposition.

And, if you look, you know, below the sort of headline, we're continuing to invest significantly in gas distribution in the US, both from leak-prone pipe, which, of course, is

helping to reduce leakage, for oil to gas conversions as well as - we're starting, as part of the rate filings, to look at opportunities around hydrogen, hydrogen blending and renewable natural gas as well.

So, you know, we see gas as having an important role as part of the energy transition, and we remain committed to it.

Within the UK, you know, the announcement today is to sell a majority stake, so we will continue to be investing in UK gas as well. And, of course, we also have other gas assets, as you said. So, our Grain asset is an important asset to us, and we announced, recently, Phase 4 to expand the capacity of that, and we see that as having an important role.

And we're also involved, as you know, in the net zero cluster, up in Humberside where we're looking to see the role that carbon capture and storage can have to deliver hydrogen up there as well. So, that remains a core part of our strategy going forward.

Andy.

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Andy Agg, Chief Financial Officer
Yeah, thanks.

So, going back to the first one - on earnings accretion, so, yes, as we said, you know, significantly earnings accretive. I'm not going to give a sort of, specific range on that. There's a lot of detail to work through, as you can imagine, but, as you said, while we've got the remaining years of ED1, combined with, as you say, you know, through the transaction on the National Grid Gas sale, significantly earnings accretion up front.

And then, as you say, we continue to deliver earnings accretion over the long-term as that higher growth that we've talked about, you know, many times this morning, starts to drive, you know, improved earnings as we look forward as well. So, you've got the short-term benefit and then the longer-term drive coming through from growth.

In terms of outperformance to date, as we said, I think WPD, over the life of ED1, has delivered around 9.9% RORE, so significant outperformance, predominately coming from its really strong incentive performance in terms of, you know, customer satisfaction outage response and so forth. So that's its track record.

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John Pettigrew, Chief Executive Officer
Thanks, Jenny.

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Jenny Ping, Citi
Thanks.

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John Pettigrew, Chief Executive Officer

Mark Freshney, I can see you've got your hand up. Mark.

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Mark Freshney, Credit Suisse
Hi, thank you for taking my questions. Firstly, just a question for Andy. Are there any you know, debt buyback costs? I mean presumably There's a bit of cleaning-up of the WPD debt portfolio that might need to be done. So can we expect any additional costs there?

Just secondly, picking up some of the earlier points on RORE and WPD, if I remember correctly this was the standout outperformer 2010 to 2015. When they bought the E.ON grids they did a fantastic job turning them around. But then when I looked to the RIIO-2 Annual Report, I mean they're underperforming on finance and tax and I think UK Power Networks has pulled ahead.

So what do you see - and of course the cost of debt index that they're stuck on is a big problem for the next couple of years, how do you view all of that?

And thirdly a question for you, John. I mean eight years ago after RIIO-1, you personally hosted some big events where you spoke about the opportunity to outperform, and you did. Can we expect another day once CMAs over, but once the WPD bill has completed where you can send up and layout some sort of RORE targets and practically show us what you think you can do across the UK businesses, or a combination of you and Nicola, I guess?

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John Pettigrew, Chief Executive Officer
Thanks, Mark. Why don't I let Andy pick up the first question?

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Andy Agg, Chief Financial Officer
Yeah, so Mark, thanks. Sort of on your first question, I think around are there any associated debt buyback costs or other things? The short answer to that is no, we don't expect anything significant.

Clearly, WPD as you'd expect has a varied debt book associated with it with a variety of maturity dates, and we'll look to run that through as you'd expect. And that, I'm sure, links into your second point around the go-forward cost to debt indexing that we might expect in ED2. But remember that's still at an early stage but obviously the sector specific guidance has come out.

And clearly, we would hope that as we go forward, you know, bringing our balance sheet and sort of issuance experience together with WPDs that we continue to drive some improved performance there too.

So yes, obviously we're aware of where the cost of debt index is today, but I think we'll continue to look for opportunities going forward. But no specific one-off costs that we're expecting upfront.

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John Pettigrew, Chief Executive Officer
Yeah, in terms of your other comments, Mark, one if the things I'd quite like to emphasise is that when you look at National Grid and WPD what you'll see is a really nice set of complimentary capability. So if you look at our track record in terms of delivery then National Grid's got a world class reputation for engineering and asset management, and we've been able to deliver outperformance through innovation both in our UK price controls and in our US rate filings.

Similarly when you look to WPD you'll see that their customer satisfaction and customer service has been you know, a frontier performance in the UK. And also their operational performance in terms of reliability and lost minutes has been first class.

When you put those things together and you look at the challenges that we have in the energy transition going forward where there's going to be some fundamental investment needed in both the transmission and distribution networks. I think we're very confident that bringing those capabilities together will enable us to find innovative ways to driving performance for the benefit of customers and for our shareholders.

In terms of your request, Mark, you're quite right. So, I think it was 2013 that we did that event. It is our intention actually to provide some more detail to yourselves and to the market around how we see RIIO-T2, and indeed how we'll see RIIO-ED2 as well as we go forward.

We haven't exactly decided exactly what that format will be, but it would be our intention to share some of the plans and ideas that we've as we look forward over the next five years.

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Mark Freshney, Credit Suisse
Thank you. Thank you very much.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Mark.

I'm going to move to Martin, who's got his hand up.

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Martin Young, Investec
Yeah. Good morning to everybody. Hopefully three very quick questions.

On the Gas sale when do you anticipate reclassifying the accounting treatment of this being an asset held for sale?

And then also the Gas sale, given your comments around effectively swapping out the NECO and Gas RAVs and rate basis for what you're purchasing with WPD, does that not actually suggest that over time you will fully exit the Gas business in the UK, and that the majority stake here is merely the first step?

And then getting back roughly to the beginning of the questions where Dominic asked around the premium to the RAVs, yeah, I like the way that you explained that with almost sort of building blocks. But what would be very helpful, if you could give some sort of indication of how you see the step up from RAV to 60% splitting out in value terms across the building blocks that you outlined? Thanks.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Martin. Let me take the second one first and I'll ask Andy to pick up on the first and the third.

So as I said in my remarks actually, the only decision that we've taken today is to sell a majority stake in our Gas Transmission business. We've taken no other decisions, as I said, we've got important Gas business in Isle of Grain and we're considering to explore opportunities in other areas, and we intend to hold a minority stake in Gas Transmission.

You know, we do very strongly feel that Gas has got an important role to play in the energy transition over many decades to come, both supporting electricity generation as well as supporting Heat both domestically and businesswise. And we are continuing to explore optionality for Gas Transmission in areas like hydrogen and renewable natural gas.

You would have seen in The Times this morning quite a big article about our thoughts about the repurposing of Gas Transmission for hydrogen, which we think is an interesting optionality opportunity for us.

So the decision today is to sell a majority stake. As I said, it allows us to shift the overall portfolio to one that I think better aligns with the overall energy transition with 70% being Electric and 30% Gas, and at the same time it maintains the geographic and regulatory diversity that we enjoy with 40% our network assets being in the US and 50% of our network assets being in the UK.

Andy, why don't you pick up the first and third?

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Andy Agg, Chief Financial Officer
Yeah, thanks. So on the first one, Martin, I mean it's probably behind your question but you're probably aware the accounting rules around exactly the point at which you trigger a held for sale or discontinued ops are quite complex. It's not just intent, you have to look at ability, readiness, etc. So we'd expect that point to be reached sometime through the back half of 2021 calendar year, but we'll obviously confirm that precisely when we get there.

In terms of the third one, just coming back to your point around the RAV multiple, you know, I don't want to repeat everything John said in terms of how we're thinking about this. But again, I'm not going to try and get granular around how much we attribute to different elements, but I think you do come back to the importance of growth here.

And one of the reasons we wanted to show the RAV multiples or the RAV numbers as you look forward to the years ahead is you would expect absolutely that growth value,

accretive growth to effectively erode that multiple over time and relatively quickly because of the size of that growth.

Obviously, the outperformance. Again, we will look to target across these businesses. But I think it's also important that you think about those multiples in the context of the other transactions that we've announced and the very sort of attractive crystallisation of value that we've been able to achieve on Rhode Island and that we'll be looking to achieve on Gas Transmission, and our ability to therefore redeploy that into the new business which will allow us to continue to grow for many years ahead. So that's how we're thinking about it.

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John Pettigrew, Chief Executive Officer
James from Deutsche, I think you've got question?

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James Brand, Deutsche Bank
Yes, hello. Congratulations from me on the deal. I have three hopefully quick questions.

The first is just on synergy as you've highlighted the strategic synergies, you haven't talked about financial synergies. I'm assuming because there probably aren't really any but just to confirm that you're going to be keeping the overall size of the business the same, whether there are any financial synergies or not and put two Electricity businesses together in the UK?

The second question, could you tell us the cost of debt for WPDs debt portfolio?

And then thirdly, just on D&A, when you say that you're expecting a deal to be earnings accretive when you're doing your calculations, how are you taking into the account PPA? Because I'd imagine that there might be significant PPA kind of D&A associated with this deal. Are your calculations kind of including anything for that?

And then the second part of that question, so I guess this one isn't a short one, but there have been views in the past that some of the accounting at WPD is quite aggressive in terms of very long depreciation lives. Maybe that's a misperception but I was wondering whether you could comment on whether you're anticipating combining the accounting policies there a bit more with your existing business or not? Thanks.

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John Pettigrew, Chief Executive Officer
Okay thanks, James. Let me just pick up on synergies and I'll ask Andy to pick up on the cost of debt and the accretion question.

I mean in terms of synergies; we weren't today planning on going through sort of a detailed breakdown of the elements that we believe make up why the announcement today we believe is fair value.

As I set out earlier, we do believe that there are complementary capabilities between National Grid and that will help us drive outperformance and over time we will continue to work through that.

But today you know, what we're really announcing is that the acquisition of WPD will not only be earnings accretive in Year 1 but going forward, but also will drive stronger longer and more certain growth for many, many decades to come.

So with that, Andy, why don't you pick up on the ...

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Andy Agg, Chief Financial Officer
Yeah, and James, apologies, you broke about - I think your question was around the cost of debt performance for WPD in the period ...

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James Brand, Deutsche Bank
Just the cost of debt. Just the actual current cost of debt for WPD that you've assumed.

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Andy Agg, Chief Financial Officer
Okay, but I think whereas if you look at where they are at the moment, I think they're consistent with where they've been throughout ED1, which is a slight underperformance on their sort of financing and tax against their regulatory allowances.

I think if I go back to the previous question or one of the earlier questions, I think given where the index is coming out, we wouldn't anticipate that changing significantly overnight.

But as I say, as we look forward in bringing the two businesses together, I think we'll continue to seek opportunities to look for opportunity in that space. But I would expect that their level of debt performance will continue pretty much in line with what we've seen previously.

In terms of the PPAs and accounting, so certainly as you'd imagine at this stage of a big public deal with diligence, that's normal. Of course we've looked at a high-level impact of purchase price accounting.

And also the other part of your question around their existing accounting policies, and we've taken that into account in our comments this morning around expectations around accretion.

As you can imagine, as we go through the actual completion of the acquisition a huge amount more work will take. But I think that where we are today, we're comfortable that we've taken those impacts into account, but obviously much more details to come down the track.

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James Brand, Deutsche Bank

Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, James. Sam from UBS, I think you've got your hand up.

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Sam Arie, UBS
Hi. Yes, I have. Good morning everybody. Thanks for this call and your Q&A. I'm kind of down to the end of the line, I think. But I've got a lot of small questions if you don't mind me running through a few.

They're probably very quick answers.

On your Page 16 in the slides, which was very helpful, I just wondered first if you could give us EBITDA of the three pieces as well?

Shall I go one at a time and let you answer?

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John Pettigrew, Chief Executive Officer
Why don't you run through your questions, Sam? And then we'll pick them up.

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Sam Arie, UBS
Okay, that's the first one.

Secondly, on the credit rating, I just wanted to check I understood what you said on this because just a couple of weeks ago, you were talking about a sort of warning on a downgrade. And I think I'm hearing saying that you're sort of withdrawing that warning now, but I just wanted to make sure I've properly understood what you said on the Group credit rating.

And I guess also just to check is that based on your view or have the rating agencies been crossed over in some way and been able to do this already and give you any reassurance? And that's the second one.

The third one is can you just, again, I'm sorry if you've said this somehow but I think I missed it. Have you said what is the allowed ROE that you're assuming in the central case on WPD?

And it would also be helpful if you could just remind us what's the latest you know the ROE and the latest Rhode Island rate case as well.

And then the last one is on the growth. You've talked a lot about the growth, and I get that. I understand why the electric side is kind of interesting and exciting for growth. I think you're not changing your 5% to 7% outlook. So then you said you might be able to do 5% to 7% for longer than before. But can you just help us understand, so when

would that have run out without this transaction? And so when does the benefit of this transaction start to be felt on the growth rate?

Thank you. I think that's the end of my list.

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John Pettigrew, Chief Executive Officer
Okay, thanks Sam. Let me pick up on the second two and I'll ask Andy to pick up on the first.

So in terms of the assumption of allowed return. So as I said earlier what we've done is taken I think a conservative and sensible view about what the allowed returns will be. Clearly, that's been informed by our experiences in RIIO-T1, the thoughts that we have as part of the CMA referral and the decision that came out yesterday, as well as our understanding of the relative risk between Distribution and Transmission. So we've taken a long term and sensible and prudent view of that base return, and similarly on outperformance.

In terms of Rhode Island the allowed returns are around about 9.3%, so that's the number for that.

In terms of growth it's probably worth me just sort of reiterating the point that I made earlier. So you know, one of the reasons that we do see this is as a strategic pivot is that as we look at the energy transition, and in particular Electricity, whichever scenario study you see, the expectation is we're going to see significant growth in demand.

So I've referenced a few of my remarks in terms of the Climate Change Committee which is potentially between 70% and 100%. I think the National Infrastructure Commission has talked about that doubling of demand by 2050. And at the same time that's going to require significant investment in Electricity Distribution, both to support distributed generation, the roll-out of EVs as well as potentially an increased role for electric in heating as well.

So, we see it as very much a not just the next few years but a multidecade need for investment to support the energy transition that's going on.

In terms of our current guidance, we talk about 5% to 7% and my key message today is we expect that growth to be stronger, more certain and more sustainable going forward as we move forward with this transaction.

Andy?

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Andy Agg, Chief Financial Officer
Yeah, thanks. So if I pick up, I think, the first two. So on the EBITDA question, Sam. So the WPD EBITDA is actually shown on Slide 7 of the deck, so it's around £1.2bn for FY20.

I'll get the team to come back to you offline on the other EBITDA numbers for the other businesses involved.

In terms of the credit rating just to be clear, so as you say, so just over two weeks ago when we announced our RIIO decision and the associated financing strategy that we were adopting, I think we said back then we were anticipating action. And we did see that action from all three agencies, effectively moving us down a notch to, so we said this morning, so the Baa2 and BBB flat at a Hold Co.

So what we've said this morning is effectively this series of transactions and planned transactions ensure that the metrics will remain in-line with those new thresholds. So we're not expecting any further change, but just to be clear the agencies have moved since our announcement just a couple of weeks ago.

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John Pettigrew, Chief Executive Officer
Thanks, Sam.

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Sam Arie, UBS
All right, that's very helpful. Thank you.

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John Pettigrew, Chief Executive Officer
Laura, I can see you've got your hand up.

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Laura, Analyst
Good morning. Thanks for taking the question.

Just with regards to the Gas Transmission asset sale can you give any clarity on whether the debt level travels to the new owner or how will that be treated?

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John Pettigrew, Chief Executive Officer
Thanks, Laura. I'll let Andy pick that on up.

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Andy Agg, Chief Financial Officer
Yeah, thanks. So as we said this morning, the intent would be that we would look to sell our majority stake in the National Grid Gas Plc. business, and the debt is therefore, you know, the operating company debt is held within that entity. So absolutely we'd anticipate that the Op Co debt would be included in that transaction.

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Laura, Analyst
Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, Laura. Ahmed from Jefferies, I think you've got your hand up?

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Ahmed Farman, Jefferies
Yes. Morning. Thank you for taking my questions. A few more from my side.

I just wanted to ask if you could talk a little about the impact of the transaction on the cash, the free cash flow. Do you see the accretion there to be similar to how you sort of highlighted accretion on the EPS side?

And then if that's, if we could take that a little bit further and talk a little bit more specific on what does it mean for the key credit metrics? Any granularity on how accretive or not they are this transaction would be very helpful.

And secondly, just to check, you haven't talked about any sort of capex and cost synergies within the UK as a result of this transaction. How do you see that?

I just also wanted to confirm, I think you made a comment earlier in response to one of the questions that the EV to RAV ratio for the US disposal is two times. I don't know if that was your statement?

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John Pettigrew, Chief Executive Officer
Okay thanks, Ahmed. Let me just pick on the capex question and I'll let Andy pick up on the accretion and credit metrics.

So in terms of capex if you look at over ED1 then WPD's had significant investment. What we're expecting to see based on their draft business plan, obviously that will evolve a bit over the next 12 months as they go through the process with Ofgem. In their draft business plan they're talking about a 20% increase, so that's around about £1bn per annum of capex.

So from a Group perspective currently we're spending around about £5bn a year, so that would increase to you know, somewhat higher to about £6bn a year depending on where they get to with their business plan and the process with Ofgem. So quite a significant setup.

Andy?

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Andy Agg, Chief Financial Officer
Yeah, so thanks. I mean on cash flows, in terms of underlying operating cash flow, we would anticipate that that would reflect the earnings accretion that we've talked about.

But as you've said, accompanied with that is potentially higher levels of capex and therefore as we said this morning, we would expect our overall credit metrics, the RCF on the Moody's side and FFO metrics on S&P would draw up two key ones to continue to track in line with the new bands.

So not a significant movement from where we were expecting to be but stay comfortably within the 7-9% and the 10-13%, which are new bands that we're at.

In terms of the Rhode Island figures yes, and just to be clear, and it's in the statement that we've put out this morning, so the rate base is $2.6bn combined T&D. The $3.8bn of equity value plus around $1.4bn of associated debt gives you the $5.2bn of total EV.

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Ahmed Farman, Jefferies
Thank you.

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John Pettigrew, Chief Executive Officer
Thank you, Ahmed. Javier from JP Morgan, I think you've got your hand up?

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Javier Garrido, JP Morgan
Yeah, thank you very much. Yes, I have one question. It's on the debt of WPD. And do you expect to keep leverage in terms of net debt to RAV at around 75% or do you plan to get some equity in there to bring the business in-line with a notional gearing over time?

Thank you.

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Andy Agg, Chief Financial Officer
Yeah, so again, I think I heard most of it, Javier. I think you are saying that WPD today is geared slightly higher than the notional gearing.

I think as I said earlier, over time obviously we'll bring that overall debt book into our own. As you know, our approach is to run our operating companies broadly in-line with notional regulated gearing, both UK and US. But obviously then have additional Hold Co debt. So the exact mix of the book going forward we'll work through, but that philosophy, we're not expecting that to change.

But as I said in answer to one of the earlier questions, equally we're not planning sort of any immediate debt management or liability management to bring debt levels down. So that will flow through into our overall leverage on the completion of the acquisition.

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John Pettigrew, Chief Executive Officer
Thanks, Javier. John of Royal Bank of Canada, have you got your hand up?

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John Musk, RBC
Yeah. Just one quick follow-up, very quick.

The bridge financing, can you give some indication on the likely cost of that versus your existing debt?

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Andy Agg, Chief Financial Officer
Yeah, so as you can imagine, John, bridge financing is always slightly higher than normal sort of existing debt. But given the nature of these transactions with a need to fund-certain effectively ahead of completion, that's why we've taken that route. And effectively the pricing will also take into account the takeout route which in this case as we said this morning is intended to be predominantly through the proceeds from Rhode Island and then from Gas Transmission.

So you would expect it to be slightly higher but obviously, it's the short-term instrument which will be repaid within 12 to 15 months.

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John Pettigrew, Chief Executive Officer
Thanks, John. Deepa, I think you've got your hand up as well, again.

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Deepa Venkateswaran, Bernstein
Thanks. John, I had two follow-up questions for you. One is just looking at the valuation. So even if I take into account that you have got a fantastic valuation on the US it still leaves a rather chunky premium and depending on whether you take this year or next year's RAV, but somewhere between 50 to 60 net.

And then when I put that in the context of your current valuation where barely you're getting any premium at all through your UK assets, that seems like a very big disconnect. So is the market undervaluing your UK assets or are the WPD assets so attractive? I mean that was my question one.

And I suppose the other pivot you could have done is go more towards the US. I mean certainly the US 9% ROE looks very attractive in the context of the UKs returns even if the CMA pushes it up.

So it was a bit surprising that you've pivoted back a little bit more towards the UK. So perhaps that UK, US political risk and return balance, maybe you could explain your logic. Thanks.

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John Pettigrew, Chief Executive Officer
Yeah thanks, Deepa. I'm going to pick up on the second question and I'll ask Andy to pick up on the first.

So in terms of the announcements that we've made today the strategic pivot that we're making is to increase our exposure to Electricity to move from 60% to 70%.

We did see a unique opportunity with WPD to be able to enter Electricity Distribution at scale and in doing that we believe it will deliver stronger growth, more certain growth for longer going forward given, as I've said, we see very strong demand growth in Electricity.

In terms of the overall shape of the Group it leaves us, I think, in a very nice position in that we're to some extent 70% Electricity, 30% Gas, which I think aligns with how we see the energy transition playing out. And at the same time it also leaves us very nicely balanced in terms of geographic and regulatory diversity, which as you know, we think creates real value.

So we are able to share best practice and learn from regulatory agreements in the UK and in the US. And as a result of these transactions that leaves us in a position where we're 40% US networks, 50% UK.

So overall, I think a strategic pivot that increases our exposure to Electricity, strengthens our underlying growth which underpins the dividend at a time when there is a unique opportunity to enter Electricity Distribution at scale, which doesn't happen very often, is why we've made the announcement on the transactions today.

Andy, do you want to pick up on the -

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Andy Agg, Chief Financial Officer
Yeah. So Deepa, again I think it sort of links back to some of the comments we've made already this morning, which is unfortunately our businesses do get looked at through a RAV multiple lens, but I think sometimes those don't represent the fundamentals of the businesses that we're running. And in this case, we think that's very true of WPD in terms of the fair value that we believe we're paying for it.

Your point about that being reflected in the share price, you've probably heard us say before, it's maybe frustrating that the market isn't recognising those fundamental values at the moment. And I think your own consensus in terms of the sell side would recognise that you know, a slightly higher multiple on UK assets may be appropriate.

So, I think, I acknowledge the point, but we believe the fundamental values particularly with the three transactions taken together mean that we're confident that the value we're paying is an appropriate one.

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Deepa Venkateswaran, Bernstein
Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, Deepa.

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Deepa Venkateswaran, Bernstein

One follow-up. Can I ask a follow-up just on the percentages that you gave, 50%, 40% etc. Is that RAV rate based, is that earnings growth and what percentage are you assuming that Gas Transmission is sold down?

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John Pettigrew, Chief Executive Officer
Yeah, so it's on an asset base, a regulated asset base and it's an assumption of 51% sale of Gas Transmission. So just at the minimum of the majority stake, Deepa.

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Deepa Venkateswaran, Bernstein
Okay, thank you so much.

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John Pettigrew, Chief Executive Officer
Okay, Dominic, I think you've got your hand up again. So do you want to ask your question?

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Dominic Nash, Barclays
Hi there, yes, thank you. Two quite quick ones.

Firstly the £6.4bn of debt that's coming with WPD, are there any derivative monies in that like interest rate out - the money that you've included or is that an underlying debt number?

And secondly, you've peaked my interest a bit about the restructuring of the RAV businesses when you combine Transmission with Distribution. Do you think that you could end up with a reorganisation of say your high-voltage Electricity Distribution and could that we could see a Transmission RAV via the 132kv lines and have a look at the world in quite a different way? Or do you think there has to be regulatory recompense as we see today in perpetuity?

Thank you.

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John Pettigrew, Chief Executive Officer
Do you want to take the debt point?

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Andy Agg, Chief Financial Officer
Yeah Dominic, on the debt point, yes, they have as you can imagine index linked that within their portfolio as well as that they do take other sort of derivative items involved. And obviously we'll be working through that in terms of the fair value exercise when we work through that. But as I say, there's nothing that we're significantly aware of.

But linking back to the earlier questions as well around their performance of cost, going to cost debt allowance, and I think that we do see more opportunity in the long term as we work through that debt book.

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Dominic Nash, Barclays
Okay, so the £6.4bn is the £6.4bn, there isn't like £400m of a derivative that you've added to that. That's what I'm just clarity on.

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Andy Agg, Chief Financial Officer
Sorry, so the £6.4bn, no. That's effectively their existing book before any action or involvement that we might have.

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Dominic Nash, Barclays
Great, thanks.

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John Pettigrew, Chief Executive Officer
Dominic, the line's not great. I think I've picked up the sort of core of your question which was around restructuring.

My expectation is very much like Gas Distribution and Gas Transmission, which is certainly currently in the current regulatory framework, and as I say going forward over the next few years then the WPD business will be operated as a Distribution business distinct from Transmission.

However, as I've said as we think increasingly as an industry about whole system solutions, we do think there are opportunities to actually bring the complementary skills together, to develop propositions for customers which are going to be more effective.

So for example, the opportunity to look at where to connect generation, whether it's large or small. Things like EVs for example, so as you know, National Grid's been spending a lot of time looking at how to build and ultra-fast charging network at the macro-transmission level, but at the same time distribution companies are looking to increase the number of charging points to support the rollout of EVs.

Being able to look at those things more holistically, I think will create opportunities. Whether there'll be more structural changes in the industry as we move forward over the - as part of the energy transition time will tell. But we've not built any of that into our assessment of fair value today.

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Dominic Nash, Barclays
Great. Thank you.

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John Pettigrew, Chief Executive Officer
Mark, I think this is the last question so do you want to ask your question?

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Mark Freshney, Credit Suisse
Yeah, so I guess a couple of things. Firstly, Andy, on Gas Transmission can we expect you to look into putting in a mid-co-structure and potentially doing an opportunistic refinancing in the next year or so to try and maximise proceeds from any sale?

And secondly, sort of like holistically, if I think about the statement you made a couple of weeks ago on laying out a new dividend policy linked to CPIH, is it fair to say that you firmly believe that everything you've announced today works towards making that dividend more sustainable than being able to grow it for a much, much longer period of time?

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Andy Agg, Chief Financial Officer
Thanks, Mark. On the first, the debt restructuring point, I guess you're referring back to what we did with the Gas Distribution sale a few years ago where effectively as part of that process, we identified that a number of the bidders were interested in that type of structure and it worked for them and we were able to put it in place for the buyers.

It's very early days as we've said this morning. Clearly, those options are available, but again, it'll be - it will emerge as we go through the process and we understand what the process is looking like, what the potential buyers are interested in. But certainly those options are available to us if we go down that route.

In terms of the dividend, I mean you're absolutely right. So we announced the new policy two to three weeks ago in line with the existing business. And the sequence of transactions that we've announced this morning contribute further underpin to that both today in terms of the accretion but also John said a number of times, the more transparent and increasing certainty of the growth that we now see going forward, we believe further underpins the confidence around that dividend policy and for longer as well, as you say. So absolutely.

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John Pettigrew, Chief Executive Officer
Thank you, Mark. So thank you for the questions. Let me just finish by just summarising.

So today, we strongly believe that we've announced a significant strategic pivot which not only is going to allow us to play a much larger role in the UK energy transition, but as you've just heard from Andy, it's going to support our investor proposition going forward with more sustainable and longer-term growth, which of course will underpin the dividend.

So again, thank you for your questions and I look forward to seeing you all soon.

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Investor Update

Proposed acquisition of Western Power Distribution (WPD) and Strategic Portfolio Repositioning

Investor Relations | March 2021

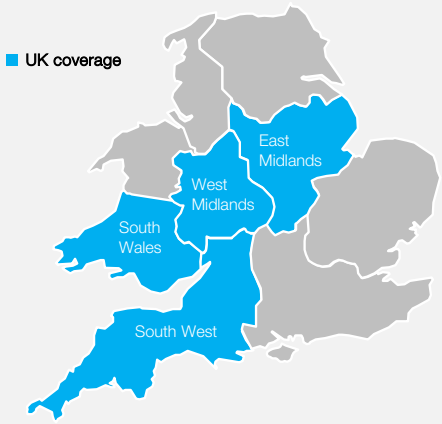


"These transactions will be transformational for our UK portfolio. The acquisition of WPDis a one-off opportunity to acquire a significant scale position in UK electricity distribution. Western Power Distribution has a high quality, fast growing asset base and an excellent track record of customer satisfaction, operational performance, and financial returns. We have received a premium valuation for our Rhode Island business and I am confident that we will also deliver attractive shareholder value from the sale of the UK Gas Transmission business in due course."

John Pettigrew
Chief Executive of National Grid

Acquisition of Western Power Distribution

- UK's largest electricity distribution network operator (DNO)



- Equity value of £7.8bn
- 6,500 employees
- 7.9 million customers
- £8.8bn estimated RAV (FY22)
- 5% annual RAV CAGR[1] delivered for ED1 period

1. Regulated asset base compound annual growth rate based on Ofgem publication

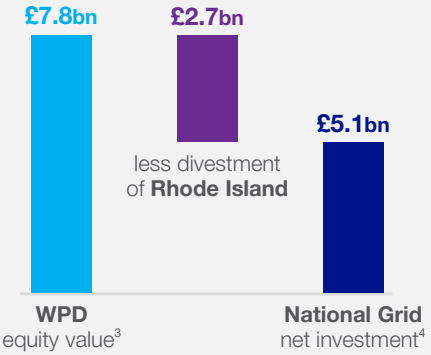
Sale of our Rhode Island business

- Electric and gas distribution business regulated by Rhode Island Public Utilities Commission; electric transmission business regulated by the FERC
- $2.6bn rate base as at March 2020
  $1.8bn distribution, $788m transmission
- Equity value of $3.8bn (£2.7bn[2])
- Net debt of $1.4bn (£1.0bn) as at 31 March 2020

2. Assumed GBP/USD FX rate of 1.39.

Funding overview (equity basis)

National Grid Contribution



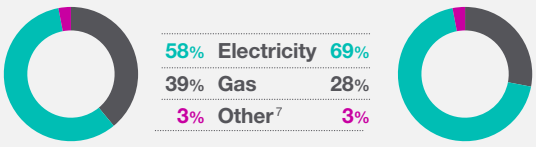
3. Subject to customary closing adjustments
4. Rhode Island is conditional upon WPD completing, but WPD is not conditional on Rhode Island completing

Intention to sell a majority stake in our UK Gas Transmission business, including gas metering

- £6.4bn March 2022 RAVe[5]
- £356m FY20 profit before tax[6]
- Plan to launch a sale in 2H 2021

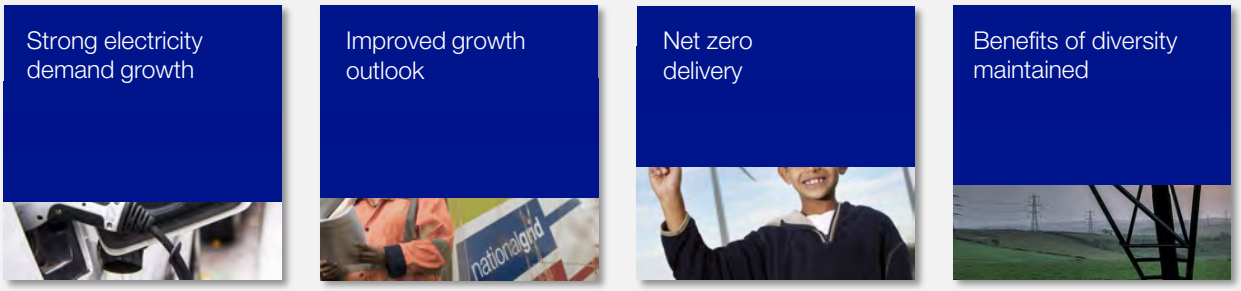
5. RAVe: estimated regulated asset value
6. National Grid Gas plc

Electricity-oriented portfolio with regulatory diversity



7. Includes US Service Co, NG Partners, Property and UK Other Assets (Corporate)

A strong strategic fit



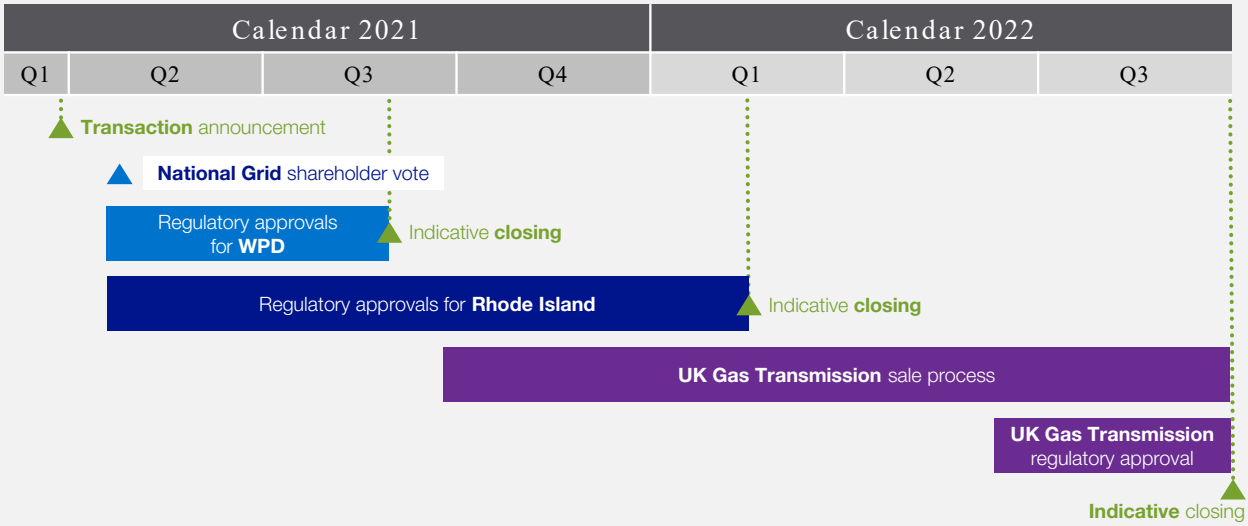
Attractive financial returns for shareholders

- Strong growth profile of WPD and potential for outperformance
- Expected strong cash flow and returns greater than cost of capital
- Valuation of WPD based on conservative assumptions for future regulatory returns
- Achieved premium valuation for Rhode Island business
- Confidence in value of UK Gas Transmission business

Following completion of three deals

- Superior growth opportunity – enabling 5-7% range for longer
- Improves earnings growth and dividend cover
- Further underpins recently updated dividend policy
- Earnings accretive
- Expect metrics to remain consistent with current ratings

Overall timeline summary



Important notice

This document 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 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. Furthermore, this document, which is provided for information only, does not constitute summary financial statements and does not contain sufficient information to allow for as full an understanding of the results and state of affairs of National Grid, including the principal risks and uncertainties facing National Grid, as would be provided by the full Annual Report and Accounts, including in particular the Strategic Report section and the 'Risk factors' section on pages 227 to 230 of National Grid's most recent Annual Report and Accounts for the year ended 31 March 2020 as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2020, published on 12 November 2020. Copies of the most recent Annual Report and Accounts are available online at www.nationalgrid.com or from Equiniti Limited. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

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Building a platform to lead the energy transition

London | 20 May 2021: National Grid, a leading energy transmission and distribution company, today announces its Full Year results for the period ending 31 March 2021.

John Pettigrew, Chief Executive, said:
"In the past year we have successfully navigated the challenges of COVID-19, delivered over £5 billion of capital investment and achieved a solid underlying financial performance. This is testament to the strength and resilience of our business model and the unwavering commitment of our employees.

We also announced the transformational acquisition of WPD which will ensure National Grid is at the heart of the energy transition in the UK and enhance the future growth profile of the Group. National Grid has an exciting future, with numerous opportunities in the UK and US to provide energy security and support the delivery of net zero. Our critical role in the energy sector, alongside our position as a principal partner at COP26, provides us with a unique opportunity to call for more ambitious action towards a clean energy future and a strong platform from which to generate value for all our stakeholders.

Our confidence in the Group's prospects is reflected in the ambitious five-year outlook for capital investment, asset growth and earnings, which we are announcing today."

Financial Summary

Year ended 31 March – continuing operations

	Statutory results			Underlying[1]		
	2021	2020	% change	**2021**	2020	% change
Operating profit (£m)	**2,895**	2,780	4 %	**3,283**	3,454	(5)%
Profit before tax (£m)	**2,083**	1,754	19 %	**2,407**	2,493	(3)%
Earnings per share (p)	**46.6**	36.8	27 %	**54.2**	58.2	(7)%
Dividend per share (p)	**49.16**	48.57	1 %	**49.16**	48.57	1 %
Capital investment (£m)	**5,047**	5,405	(7)%	**5,047**	5,405	(7)%

3,523 million weighted average shares for 2020/21 (2019/20: 3,461 million).

Highlights

- Transactions progressing, WPD acquisition approved by shareholders – we expect WPD completion by July.
- Regulatory milestones reached with the RIIO-2 Final Determination and Joint Proposal for KEDNY-KEDLI.
- COP26 principal partner and new Scope 3 targets set for the Group.
- Statutory operating profit up 4% to £2.9 billion principally driven by environmental exceptional charges made in the prior year, partly offset by increased under-recoveries and higher storm costs.
- Solid financial performance with underlying operating profit down 5% to £3.3 billion primarily driven by the impact of COVID-19.
- £5.0 billion of capex across the Group, including continued investment in UK and US critical infrastructure and the commissioning of IFA2 between the UK and France.
- Recommended final dividend to bring full year dividend to 49.16p, up 1.2%, in line with policy.

Financial Outlook and Guidance

- Financial outlook over the 5 year period 2020/21 to 2025/26:

[1] 'Underlying' represents statutory results from continuing operations, but excluding exceptional items, remeasurements, major storm costs (when greater than $100m) and timing. These and a number of other terms and performance measures used in this document are not defined within accounting standards and may be applied differently by other organisations. We have provided definitions of these terms on page 69 and 70 and reconciliations of these measures on pages 69 to 80. These measures are not a substitute for IFRS measures, however the Group believes such information is useful in assessing the performance of the business on a comparable basis.

- Total cumulative capex of £30-£35 billion;
- Asset growth CAGR[2] of 6-8% backed by strong balance sheet;
- Driving underlying EPS CAGR of 5-7%;
- Credit metrics to remain within current rating thresholds.

- This guidance is based on the inclusion of WPD, the sale of NECO (Rhode Island) completing in Q1 of CY2022 and the sale of a majority stake of Gas Transmission being completed during FY2022/23.

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Webcast details

Management will host a live webcast and Q&A at 09:15 (BST) today. The webcast link is https://streamstudio.world-television.com/786-1014-28364/en (registration required). Please use this link to join via a laptop, smartphone or tablet. Participants can register to ask a question via the webcast screen. A replay of the webcast will be available soon after the event at nationalgrid.com/investors

For participants unable to join the webcast the presentation is available in audio-only using the following details:

UK dial-in numbers	+44 (0) 203 936 2999 (Local)
US dial-in numbers	+1 646 664 1960 (Local)
All other locations	+44 20 3936 2999
Access Code	131 833

The 2021 Annual Report and Accounts (ARA) is expected to be publicly available on 8 June 2021. You can view or download the ARA from National Grid's website at nationalgrid.com/investors or request a free printed copy by contacting **investor.relations@nationalgrid.com**

Use of Alternative Performance Measures

Throughout this release we use a number of alternative (or non-IFRS) and regulatory performance measures to provide users with a clearer picture of the regulated performance of the business. This is in line with how management monitor and manage the business day-to-day. Further detail and definitions for all alternative performance measures are provided on pages 69 to 80.

[2] Compound Annual Growth Rate

2020/21 OVERVIEW

A good performance despite the challenge of COVID-19

In 2020/21, National Grid delivered good operational progress with high levels of network reliability across all our service territories – this despite the significant challenges throughout the year from COVID-19.

During the year, we achieved a Lost Time Injury Frequency Rate (LTIFR)[3] of 0.1, in line with our Group target of 0.1, and an improvement on prior year. In the US, we achieved an LTIFR of 0.12 compared to 0.16 in the prior year. Tragically, one of our US contractors lost his life in November at our Investment Recovery Center in Syracuse, New York. We immediately initiated an investigation into the cause, as did the contractors, and we have reviewed procedures to ensure that lessons learned are shared extensively across the Group. National Grid Ventures (NGV) saw LTIFR rise to 0.15, compared to 0.05 in the prior year, through three minor site accidents. In the UK, we delivered our best ever year of safety with a LTIFR of 0.04 compared to 0.07 in the prior year.

Across the Group, capital investment decreased by £210 million at constant currency to £5,047 million, a decrease of 4% (or 7% at actual exchanges rates). This decrease was principally driven by lower UK Gas Transmission spend (completion of the River Humber Gas Pipeline Replacement Project); lower interconnector capex and non-recurrence of the National Grid Renewables (formerly Geronimo) acquisition for NGV; partially offset by higher US spend on network repairs following increased storm activity, increased US transmission project spend, and higher capital spend on UK Electricity Transmission projects (Hinkley-Seabank and London Power Tunnels 2). When combined with RPI inflation, capital expenditure drove Group asset growth of 5.6%.

A strong operational response to COVID-19

Across the year, COVID-19 has had a significant impact on the way we work. As the crisis unfolded, we successfully implemented business continuity plans in the UK and US to keep our employees safe, to ensure the safety and well-being of our customers, and to maintain network reliability across the communities we serve.

In the UK, the March 2020 lockdown meant there was an initial suspension of our capital programmes allowing us to put appropriate arrangements in place such as PPE and social distancing. Across the year, our capex programme was largely unaffected by COVID-19 as we worked closely with contractors and suppliers across all our projects to minimise delays, including major projects such as the London Power Tunnels 2, the IFA2 and North Sea Link interconnectors, and the Hinkley-Seabank connection. During the summer, electricity demand fell on occasions to 20% below expected levels with zero carbon sources making up their largest ever share of the power mix. For our Electricity System Operator (ESO) business, this meant our control room engineers taking more actions, on more days, increasing and decreasing sources of power to maintain system stability and security.

In the US, our COVID-19 Health and Safety Plan served as a guideline for all employees and contractors throughout the year. We have ensured that safety expectations have been made clear for new ways of working, allowing us to deliver our critical investment whilst limiting the impact of the pandemic on our capital delivery programme. Updated working guidance has continued for our field force including limits on team sizes and single occupancy in vehicles. Our teams have continued to reconnect customers speedily during a year of significantly increased storm activity, working successfully through lockdown and social distancing requirements. We also conducted more than 32,000 virtual home energy assessments in New England when in-person home energy assessments were suspended due to COVID-19.

Supporting our communities

Throughout the year, our employees have continued to support our communities through volunteering and providing time to support charities and the most vulnerable. As part of this, we set up Grid for Good to help address the effects of the economic downturn in the UK and US which has seen youth unemployment double during the pandemic.

In the UK, the Company made donations to the National Emergency Fund and Trussell Trust, and we donated 400 tablet devices to University Hospitals Birmingham. National Grid was also one of 200 signatories to an open letter from UK business leaders to Government calling for the alignment of economic recovery plans with the

[3] Employee and contractor lost time injury frequency rate per 100,000 hours worked.

UK's wider environmental and climate goals, and for 100,000 jobs to be created in the energy sector as we work towards net zero.

In the US, the Company has provided economic development grants to seven Western New York initiatives to grow the regional economy following COVID-19. Financial donations were made to support hunger relief and services for people in need and struggling due to the impact of the pandemic. We also donated to Feeding America's hunger action month, a partnership with Feeding America who support over 45 food banks across Massachusetts, New York and Rhode Island. This is an example of the Company's ongoing efforts to support local communities with charitable donations in the US since the beginning of the pandemic.

Supporting our customers

Throughout the year the Company has continued to provide ways to help customers manage their bills. In the US, we suspended our debt collection and customer terminations resulting in lower customer collections and additional provisioning for doubtful debts. As part of our upstate New York rate plan filing, we proposed up to $50 million in COVID-19 relief to support our most economically vulnerable customers as well as businesses struggling from the financial impact of the pandemic. We also decided to postpone by three months our Niagara Mohawk filing for new rates in upstate New York. Our response to the COVID-19 pandemic has also led to improvements in customer satisfaction. In Q4 2020, the Cogent Energy Report, a national survey of 140 US utilities, ranked our response to the pandemic as fifth out of twenty five large Eastern US electric utilities.

In the UK, we took a leading role in the industry, actively supporting Ofgem's measures to protect customers by relaxing network charge payment terms for suppliers and shippers facing cash flow challenges as a result of COVID-19. The procurement team also kept in regular contact with our critical suppliers to ensure early identification of potential supply chain issues and to ensure the necessary support was available where required.

Financial impact on our business

We previously guided that the impact of COVID-19 on 2020/21 underlying operating profit was expected to be around £400 million. Our teams have worked hard to mitigate COVID-19 related costs throughout the year, and we are pleased that the estimated out-turn is £355 million (before cost recoveries), below the expected impact we previously guided to.

In addition, we have recognised £59 million as revenue recovery for the commodity portion of some of our COVID-19 bad debts. Therefore, our year end underlying operating profit impact from COVID-19 is £296 million, with the broad areas driving this remaining unchanged. Our estimated impact for each is as follows:

- a residual bad debt cost of £120 million;
- a shortfall of revenue under existing rate plans of £78 million, principally through the suspension of late payment fees in the US, fewer US customers requesting 'protected status' due to the moratoriums on disconnections, and lower customer income in the UK;
- a £70 million impact from delays to agreeing a settlement for our filing for new rates in KEDNY and KEDLI, downstate New York; and
- net direct costs of £28 million relating to enabling safe working (PPE, cleaning, sequestering staff, IT for remote access) and costs associated with delays to a number of planned capex works.

We also guided to a cash flow impact from COVID-19 of up to £1 billion. The estimated cash impact for the full year is around £600 million. As our regions emerge from COVID-19 during FY2021/22, we continue to expect an impact to be felt from weaker demand, some lower revenues and lower cash collection from our US customers. As we have guided previously, we remain confident that we will be able to recover a majority of these COVID-19 related costs either through existing regulatory mechanisms or through separate filings.

Operational and regulatory progress in 2020/21

Across the Group, we achieved an RoE of 10.6% in 2020/21, down 140 basis points against prior year (2019/20: 12.0%[4]). This was principally driven by a year-on-year fall in the US Regulated RoE through additional impacts associated with COVID-19 and a significant increase in non-deferrable storm activity. UK Transmission RoE was broadly similar to prior year.

We have continued to make good progress in our US regulatory strategy as we align our rate filings and agreements with the environmental goals of the states where we operate. We have filed a Joint Proposal for new rates for our downstate New York businesses KEDNY-KEDLI, and during the year filed for new rates for Niagara Mohawk in upstate New York and for our Massachusetts Gas business. In the UK, we have accepted the majority of the RIIO-2 Final Determination and we have continued to make good progress on our interconnector and renewable portfolios.

A year of continued growth in the US regulated business

We achieved good operational performance across our US regulated business during 2020/21 with an electric distribution network reliability of 99.92%, despite the significant challenges of COVID-19 and increased storms. In addition, investment in the safety and reliability of our US networks has continued, with capex increasing year-on-year.

During the year, the financial performance of the US regulated business was impacted by additional costs of COVID-19, and a greater number of storms, with our achieved RoE decreasing by 210 basis points to 7.2% (excluding COVID-19 related bad debts). Adjusting for these headwinds, and the impact of rate case delays, the RoE would have been 8.6% or 92% of the allowed return.

The level of major and minor storm activity increased significantly across our service territories during the year, with the number of major storms more than doubling to 36, up from 15 in the prior year. In the face of this challenge, we delivered an excellent record in reconnecting customers across our service territories affected by storms. In October, we saw our service territories experience the third most impactful storm in the last 15 years. Over 550,000 customers lost power in New York during this storm, but we managed to reconnect 95% in less than 72 hours and avoided incurring any penalties or fines. Our operational response to increased storms has continued to be strong, particularly with the need to manage our Incident Command Structure remotely through COVID-19 restrictions.

As a result of this increased activity we saw deferrable storm costs of $201 million, up from $98 million in the prior year, and non-deferrable storm costs of $168 million, up from $74 million incurred in the prior year. The increase in non-deferrable storm costs is related to the higher number of minor storms driven by both increased activity and the fact that our restoration performance meant fewer storms met the classification of ‘major storm’. To address this, we are taking a proactive approach that includes proposing new minor storm thresholds and funding levels in current and future rate cases, continued investment in network resiliency, enhancing our strategic planning, and adopting new technology to optimise our performance.

The severe weather conditions in 2020 caused extensive tree damage and impacted our electric infrastructure and reliability performance in comparison to other years, particularly in Massachusetts. Across the north-east region, the state was the most severely impacted and as a result we missed our electric service reliability targets for the year. We estimate that we will incur a service quality penalty of approximately $14 million in CY 2022. We are committed to providing a safe and reliable service and meeting our customers’ expectations and we will continue to work to improve our reliability performance. Initiatives include expanding and enhancing our vegetation management programs, adopting new technology to optimise our operational performance, and engaging with outside experts to perform a study of weather impacts on our system. We expect these initiatives to improve performance and better manage the impact of severe weather events going forward.

Our US Regulated business invested $4.3 billion in the year, up 4% on prior year (at constant currency), helping to drive strong rate base growth of 8% for the regulated business. This increase and delivery of our capital investment programme was despite the impact of COVID-19 and the requirement to reschedule our capex programme at the beginning of lockdown in the spring of 2020. Around half of this capex, $2.1 billion, was across our gas distribution networks, of which 85% was mandated for safety and reliability purposes. This includes our Leak-Prone Pipe Replacement programme which this year saw a further 350 miles of pipeline

[4] Revised from 11.7% in 2019/20

replaced, above our target of 300 miles. This programme has a further 15-20 years to run across our service territories and is critical not only to replace ageing infrastructure but also to ensure continued reductions in methane leakages and emissions.

We have also made good progress in our US electricity transmission business. In April, the New York Power Authority selected National Grid as a partner in the Northern New York Priority Transmission Project (NNYPTP). This project will rebuild a 100 mile transmission line which will harden the resiliency of the power grid and support the state in meeting its clean energy goals by bringing renewable generation from upstate to demand centres in downstate New York. Our capex commitment is estimated to be $500 million over a period of four years, and when complete the line is expected to help avoid 1.2 million tonnes of CO_2 emissions each year.

In March, we announced the sale of NECO, our Rhode Island gas and electric distribution and transmission business, to PPL as part of the proposed WPD transaction. We expect to receive regulatory clearances for the sale by the end of our financial year.

Regulatory Progress

We continued to make good regulatory progress during the year and we are pleased to have reached agreement on a Joint Proposal with New York Public Service Commission (PSC) Staff for new rates in KEDNY and KEDLI, our downstate New York gas businesses. The proposal, filed in May, is for a three-year settlement for 2020/21 through to 2022/23 and includes an RoE of 8.8%, and capital expenditures of $2.0 billion for KEDNY and $1.3 billion for KEDLI over the term of the rate plan. There is an option to extend the plan for a fourth rate year with a net plant capital tracker if we decide not to file for new rates towards the end of the proposed three-year rate plan. In addition, the proposal provides funding for hydrogen blending research in New York, provision for geothermal projects as a long-term non-pipe alternative, and funding for Renewable Natural Gas (RNG) projects. This investment will help further our ambitions to provide cleaner gas in the long-term, helping the state reach its environmental and emissions goals whilst continuing to provide customers with affordable heating.

One of the key reasons for extended discussions with the New York PSC has been the shaping of the impact on bills and the mitigation of costs to the customer, particularly in light of the current economic backdrop in New York and the impact of COVID-19 across the state. The Company, the New York PSC and interested parties have made this a key priority during discussions and, as such, the proposal includes a zero per cent increase in bills in the first rate year (2020/21), and then 2% p.a. for the following two years for KEDNY, and 1.8% p.a. for KEDLI. We are therefore pleased that the proposal will ensure safety and reliability investment continues across the gas networks, provides for investment in clean gas pilot projects, but also mitigates the impact on customer and end-user bills. We expect a final decision from the New York PSC later this summer.

In July, we filed for new rates for Niagara Mohawk (NIMO), our electric and gas business in upstate New York. We originally planned to file for new rates in April but decided to delay the filing following the initial impact of COVID-19. It represents a one-year filing, with revenue data submitted for two additional years to help facilitate a multi-year settlement. In addition, it includes investment to support affordable decarbonised heating, including the expansion of RNG to help the state's environmental goals, and maintains a focus on managing customer affordability. Settlement discussions for the filing are underway with new rates expected to become effective in July 2021.

In November, we filed a request with the Massachusetts Department of Public Utilities (DPU) to update gas distribution rates for our Massachusetts Gas business. The rate filing requested a $139 million increase in revenue to cover increased operating costs and core investments, and a Return on Equity of 10.5%. The Company also proposed a new Performance Based Rate Mechanism (PBRM) that will link annual revenue increases to inflation similar to that agreed for our Massachusetts Electric business in 2019. The filing also proposed funding for projects to decarbonise the gas network, including hydrogen, geothermal, RNG, and demand side measures. Ultimately, our regulator determined that these proposals should be considered as part of separate proceedings. Our geothermal demonstration project is currently before the DPU and our demand response measures are under consideration as part of our energy efficiency programmes. The ongoing future of gas proceeding, opened in October 2020, will inform our future proposals for hydrogen and RNG. We expect new rates in our gas distribution filing to become effective from October 2021.

The Future of Gas – New York

In March, National Grid, Con Edison and New York City published a comprehensive analysis looking at scenarios to reduce emissions and reach the City's net zero target by 2050. The landmark study, "Pathways to Carbon-Neutral NYC: Modernize, Reimagine, Reach", is the first of its kind to bring utilities and the New York

Mayor's Office together to demonstrate the coordination required to reach carbon neutrality at scale. Its findings will inform future City policies and programmes, and will inform priorities for National Grid and Con Edison in the communities we serve. The study makes key findings across a range of sectors, including building electrification, transport, industrial efficiency and heating. One of the findings concerned the future of gas in New York City and the existing gas distribution network. The study supports low carbon gas (including RNG and hydrogen) as an important emission reduction strategy for end users that do not electrify their heating. It finds that low carbon gas is necessary in all scenarios, and though the study estimates falling gas demand across all sectors by 2050 there remains a continued reliance on the gas network through 2050 and the need to continue investing to keep the gas system safe and reliable.

In downstate New York, we continue to widen our energy efficiency and demand side response measures to ensure gas supply meets demand, as agreed with the PSC last year. We have also made good progress on our efforts to expand existing on-system Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG) facilities. As a result, we are confident in our ability to serve new customer connections over the next several winters. We continue to consider other potential alternatives and contingencies for meeting customers' long-term energy needs, including regular updates of demand projections, identifying new supply capacity and on-system projects, and further expansion of energy efficiency and demand response programs.

The Future of Gas – Massachusetts

In October 2020, the Massachusetts DPU issued an order directing state local gas distribution companies (LDCs) to jointly hire one or more independent consultants to review the Executive Office of Energy and Environmental Affairs "Massachusetts 2050 Decarbonization Roadmap" (published in December 2020). The consultants were required to identify any pathways not examined in the Roadmap, and the feasibility of all pathways for each LDC. Massachusetts has committed to achieving net zero greenhouse gas emissions by 2050, and the Roadmap was designed to support that commitment by modelling eight potential pathways: (1) all options; (2) limited offshore wind; (3) limited efficiency; (4) pipeline gas (including low-carbon fuels); (5) 100% renewable primary energy; (6) no thermal; (7) regional coordination; and (8) distributed energy resources breakthrough. The five Massachusetts LDCs include National Grid, Eversource, Berkshire Gas Company, Unitil, and Liberty Utilities.

The DPU order set deadlines for LDCs, including (1) progress to date as of 1 March 2021; (2) a second status update due 1 September 2021; and (3) a proposal by each LDC to be filed with the DPU by 1 March 2022 which includes the LDC's recommendation and plans for helping Massachusetts achieve its 2050 climate goals. LDC plans will be supported by the consultants' report analysing pathways and incorporating feedback from a stakeholder process. National Grid's first status report was filed with the DPU in March. The consultants have begun the process of analysing the Roadmap, and stakeholder meetings began in May.

A strong end to RIIO-1 in the UK

The UK has delivered another year of strong operational performance reflected in an excellent network reliability of 99.9999% for Electricity Transmission, and 100% for Gas Transmission. We also achieved an RoE of 12.6% for the UK business, meaning that the weighted average outperformance for the UK, in the final year of RIIO-1, is within our forecast range of 200 to 300 basis points.

In 2020/21, we invested £1.2 billion in our UK Electricity and Gas Transmission networks, broadly in line with prior year. Electricity Transmission capex increased principally through higher spend on the Hinkley-Seabank connection, the London Power Tunnels 2 project, and SmartWires, a project that aims to increase power transfer capability to enable greater volumes of renewable generation across the existing network, reducing the need for us to build new lines. Gas Transmission capex decreased on prior year as expected, driven primarily by lower spend on programmes including Peterborough and Huntingdon gas compressor upgrades, and on the Feeder-9 gas pipeline under the Humber Estuary where tunnelling was completed during the year. This means that our total investment across the 8 years of RIIO-1 reached £12.5 billion, generating over £850 million savings for customers across the same period[5].

The UK cost efficiency programme that we announced in 2018 continues to deliver a more efficient and agile business as we move into RIIO-2. In 2020/21, the programme enabled us to deliver a further £34 million reduction in controllable costs for Electricity Transmission compared to the prior year, and £15 million for Gas Transmission. Together with the £72 million of efficiency savings in 2019/20, we have now exceeded the £100 million savings target we set for the UK business two years ago.

[5] Including Gas Distribution through to March 2017.

We have also announced our intention to sell a majority stake in our UK Gas Transmission business. We are making good progress in preparing the business for the sale process which we expect to launch in the second half of CY2021.

RIIO-2 progress

This year has seen the conclusion of the RIIO-2 process in which we have accepted the majority of Ofgem's Final Determination (FD). Throughout the process, we have engaged extensively with a record number of stakeholders to deliver Business Plans for Electricity Transmission, Gas Transmission and the Electricity System Operator (ESO). The key foundations for these plans have been to ensure continued investment in safety and network reliability, help the UK reach its net zero and emissions targets, and minimise costs to the consumer. Whilst we have accepted the majority of the FD outcome, we have continued our technical appeal to the Competition and Markets Authority (CMA) on the cost of equity and outperformance wedge.

Following the September consultation deadline on the Draft Determination (DD), we continued to engage constructively with Ofgem at all levels. This included CEO and Chair meetings, and October's open meetings, to create the right incentives to drive the investment and innovation needed to allow the UK to meet its clean energy ambitions at an acceptable cost to consumers. In addition, as part of our response to the DD, we provided over 22,000 pages of extra engineering evidence to justify a higher baseline totex, and the work proposed in our Business Plans, to ensure asset health and system reliability is maintained across RIIO-2.

In March, we accepted the overall FD package for the Electricity System Operator, and accepted most of the package for the Electricity and Gas Transmission businesses. Whilst we welcomed the significant movement in totex allowances and greater flexibility around future net zero investment for Electricity and Gas Transmission, we believed that the methodology Ofgem used to set the cost of equity is wrong. For example, it ignored evidence for higher total market return and risk-free rate levels, and the higher risk of the energy transmission business compared, for example, with water utilities. We also maintained the view that the outperformance wedge, a downward adjustment to allowed returns in expectation of future outperformance, is conceptually and practically flawed. Consequently, we submitted a technical appeal on these two points to the CMA, which has since confirmed the appeal will proceed. We anticipate provisional CMA findings in August with Final Determinations in October.

We expect to invest around £10 billion of capex through the course of the RIIO-2 five-year price control across our electricity and gas transmission networks. Of this, around £8 billion will be investment in Electricity Transmission asset health, system reinforcement to facilitate offshore renewable generation and other new onshore system connections. At nearly £2 billion per annum on average for our transmission networks, investment will be substantially higher than the RIIO-1 price control.

Electricity System Operator (ESO)

During the year, national lockdowns caused unprecedented, record low levels of electricity demand. This, coupled with periods of high renewable generation output, made keeping supply and demand in balance more difficult. To overcome these challenges, the ESO developed a series of new electricity market services to help balance the system. In May 2020, the ESO launched Operational Downward Flexibility Management – a temporary marketplace to reduce output from renewable generation – and in September 2020, Dynamic Containment went live – a new fast frequency response service. In collaboration with industry, the ESO made progress on our Pathfinder projects, identifying how we can replace the voltage, stability and constraint management services provided by fossil fuel generation with new, greener approaches.

We are pleased that Ofgem agreed to fund the ESO RIIO-2 business plan for the activities we will deliver, approving £504m (98%) of the costs we set out for the first two years. Ofgem has listened to our feedback and our stakeholders' feedback and made changes to the regulatory framework that will set us up to transform our role, deliver our ambitious plans and facilitate the transition to a zero-carbon electricity system. Over the five-year RIIO-2 period, the activities set out in our business plan will generate net benefits of around £2 billion for consumers, lowering average annual consumer bills by around £3.

In January, Ofgem published its review of the Great Britain Energy System Operation which recommended an independent system operator, fully separate from National Grid. We are working closely with the government, regulator and industry to explore what changes will be needed to achieve net zero, to ensure system reliability, and to ensure fair recompense for shareholders should the decision be made to pursue this recommendation.

Further progress in National Grid Ventures

National Grid Ventures (NGV) delivered another good performance in 2020/21, with no significant impact to operations and construction as a result of COVID-19.

Capital investment decreased by £306 million compared to prior year, to £509 million[6]. This was primarily driven by (a) capex in 2019/20 including the acquisition cost for National Grid Renewables (formerly Geronimo Energy), and (b) lower interconnector investment on IFA2 (as the project has now been commissioned) and on North Sea Link as the majority of construction is now complete. This was partially offset by increased investment in the Viking Link interconnector to Denmark.

Our interconnectors delivered another good performance across the year. Nemo Link achieved 99% availability, up 3% on prior year, with IFA achieving 95% availability, up 4% on prior year. Availability on BritNed fell to 75%, impacted by an offshore cable fault resulting in the link being offline between December and February.

In January, we commissioned IFA2, our second interconnector to France. The 149 mile, 1,000MW sub-sea link will provide low-carbon electricity to one million homes and help the UK on its journey to net zero. We estimate that electricity imported through the link will help the UK avoid 1.2 million tonnes CO_2 in IFA2's first full year of operation. Progress on North Sea Link (NSL) continues and the link remains on track to become operational in Q4 2021, providing low-carbon electricity from hydro power generation in Norway. Activity on Viking Link to Denmark increased during the year with civil works and cable manufacturing progressing, with the link remaining on track to become operational in 2023/24.

In 2020, NGV's Grain LNG and Qatar Terminal Limited (QTL), a subsidiary of Qatar Petroleum, signed a 25-year agreement that will provide the Qatari company with storage and redelivery capacity at Grain LNG from 2025. The contract secures the long-term future of Europe's largest LNG terminal. Grain LNG will expand its storage capacity from 1 million m^3 to 1.2 million m^3 by 2025, further strengthening UK security of supply. Our Grain LNG business contributed another good year to the business, with 20% utilisation throughout 2020/21.

In the US, NGV completed the launch of its new US large-scale renewables brand, National Grid Renewables, which includes the renewables development company formerly known as Geronimo Energy. During the year, we began construction of the 200 MW Prairie Wolf Solar Project in Illinois, which has a Virtual Power Purchase Agreement in place with Cargill, as well as the construction of two portfolios of smaller solar projects including the 40 MW MiSolar Portfolio in Michigan and the 15MW Nordic III Portfolio in Minnesota, bringing the Nordic solar portfolio to approximately 70 MW in total. In addition, we expect to begin operations at our 275MW solar/125MWh battery storage Noble project in Texas in the first half of 2022.

In the US, New York Transco, of which NGV is a part-owner, continued to progress its New York Energy Solution (NYES) project which was selected by the New York Independent System Operator to provide transmission upgrades to New York's power system, while enhancing reliability and facilitating upstate clean energy resources to the downstate demand centers. The upgrades will primarily take place along 55 miles on utility-owned land. In March 2021, New York Transco began construction on the NYES project, which remains on track to complete in 2023.

Finally, NGV and RWE Renewables, one of the world's leading renewable energy companies, have signed a joint venture partnership agreement[7] to jointly develop offshore wind projects in the coastal region of the Northeast US. Under the agreement, NGV and RWE will work together to explore opportunities in the US offshore wind market with an intention to jointly bid in a future federal seabed lease auction.

St William profit growth drives another good year for property

Our Property business delivered another solid year in a challenging environment. Our joint venture with the Berkeley Group plc, St William Homes, contributed a net profit to the Group, selling approximately 230 new homes across London. However, profit from site sales was down year-on-year, although the business sold another two sites into the joint venture, Ascot and Hertford. We also exchanged contracts on a further four sites in Mitcham, Stratford, Romford and Bracknell, further strengthening the development pipeline. Our newly formed Joint Venture with Places for People, National Places, exchanged on its first site in Stony Stratford, Buckinghamshire. Across the wider Property business, we sold a further 41 sites in cities across the UK including sites in Glasgow, Birmingham and London.

[6] Including NGV joint ventures.
[7] There are no gross assets or profits attributable to the joint venture at the current time.

A landmark year in strengthening our ESG commitments

National Grid is fully committed to its role in tackling climate change and as a responsible company for the communities we serve.

Responsible Business Charter

In October, we launched our Responsible Business Charter which lays out our long-term goals across five pillars: the environment, our people, our communities, the economy and our governance. In June, we will publish our first Responsible Business Report (alongside our Annual Report) which will set out the progress we have made against our goals, bringing all our responsible business reporting into one place.

The report will include work we have done with the Science Based Targets initiative (SBTi) to increase our ambition around our Scope 3 emissions reduction target. Whilst our existing Scope 1 and 2 targets are already aligned to a below two degrees pathway, we have worked closely with the SBTi to increase the ambition of our Scope 3 target which now covers emissions across National Grid's entire value chain and a commitment to reduce carbon emissions 37.5% by 2033/34 from a 2018/19 baseline. This has allowed us to become a signatory of the Business Ambition for 1.5°C, and the Race to Zero, both of which are United Nations campaigns to bring about greater support and leadership to the climate debate. We plan to go further and are working internally, with our partners and with the SBTi, to understand how best to stretch our ambition and explore what a 1.5°C pathway would mean to the business and our supply chain.

Commitment to our communities – Grid for Good

To support the delivery of our commitment as a responsible business in relation to our communities, we also launched Grid for Good. This is our flagship community investment programme, designed to deliver social mobility in the hardest to reach corners of our communities for disadvantaged youth aged between 16 and 24. Through the Grid for Good pathway, and with the help of our employee volunteers, young people have a unique opportunity to learn about the energy industry, network with one another, gain valuable skills, receive a mentor, have a chance to gain valuable work experience, and ultimately achieve meaningful careers with us and our partners now, or in the future. We believe that fresh talent and diverse perspectives in our own organisation and our industry will be a key contributor in achieving a diverse workforce who will help us to deliver against our net zero ambitions.

Changes to our operating model

With our vision to be at the heart of a clean, fair and affordable energy future, we must ensure we can effectively and efficiently deliver the financial, customer and regulatory outcomes that will help on the journey towards net zero. To this end, we are changing our structure to an operating model with six business units. These units will be UK Electricity Transmission, the UK Electricity System Operator (ESO), UK Gas Transmission, New England, New York and NGV and Other. Each unit will be run as end-to-end enterprises within the Group portfolio, and will provide the flexibility needed to deliver both the company's growth programme but also to align more effectively with the environmental aims of the jurisdictions that we serve.

Board changes

In September 2020, we announced the appointment of Paula Rosput Reynolds to succeed Sir Peter Gershon as Chair, and in March 2021 we announced that Sir Peter will step down from the Board with effect from 31 May 2021.

Paula joined the Board on 1 January 2021 as Non-executive Director and Chair Designate and will take over as Chair of the Board from 31 May 2021. Paula is currently the Senior Independent Director of BP plc where she also chairs the Remuneration Committee and a Non-executive Director at General Electric Company.

Mark Williamson stepped down as Chair and a member of the Audit Committee, with effect from 10 November 2020. Liz Hewitt, Independent Non-executive Director of the Company, stepped into the role on the same date.

Paul Golby stepped down as Chair of the Safety, Environment and Health Committee with effect from 1 April 2021 at which point Earl Shipp took over as Chair of the Committee. Paul remains a member of the Safety, Environment and Health Committee and will remain so until he retires from the Board at the conclusion of the 2021 AGM.

GROWTH AND VALUE ADDED

A balanced portfolio to deliver asset and dividend growth

National Grid seeks to create value for shareholders through developing a balanced portfolio of businesses that offer an attractive combination of asset growth and cash returns.

Strong organic growth driven by critical investment

In 2020/21, the Group achieved asset growth of 5.6% driven by a £5.0 billion capital investment programme. This investment continued our focus on building and maintaining world-class networks that are safe, reliable, resilient and ready for the future. It is specifically focused on:

- our regulated businesses: with the objective of upgrading and modernising ageing infrastructure, especially in the US, to meet the changing needs of customers and to drive the decarbonisation of energy supply; and
- interconnector projects: with the objective of bringing a range of lower cost and renewable energy sources into the UK.

Looking forward, we expect capital investment to be around £6 billion for the Group in 2021/22.

National Grid is confident that this high-quality growth will continue to generate attractive returns for shareholders and add to our long-term investment proposition of sustainable asset and income growth.

Funding of organic growth

National Grid has a strong balance sheet and an efficient capital structure which supports the effective financing of our investment programme. This programme will continue to be financed through a combination of:

- additional debt financing;
- internally generated equity capital, delivered through strong financial performance in both the UK and US, including from operating efficiencies and from faster recovery of regulatory assets through rate filings and re-openers; and
- additional equity capital generated through the take-up of the shareholder scrip dividend option, which we expect to continue to utilise whilst asset growth remains high.

£5 billion of Capital Investment in 2020/21, 4% lower at constant currency

We continued to make significant investments in critical energy infrastructure during 2020/21. Total capital investment across the Group was £5,047 million, a decrease of £210 million ((4)% at constant currency) compared to the prior year.

Year ended 31 March

Capital investment (£ million)	At actual exchange rates			At constant currency		
	2021	**2020**	**% change**	**2021**	**2020**	**% change**
UK Electricity Transmission	**1,072**	1,043	3 %	**1,072**	1,043	3 %
UK Gas Transmission	**176**	249	(29)%	**176**	249	(29)%
US Regulated	**3,223**	3,228	— %	**3,223**	3,098	4 %
NGV and other activities[1]	**576**	885	(35)%	**576**	867	(34)%
Group capital investment	**5,047**	5,405	(7)%	**5,047**	5,257	(4)%

1. Excludes £nil (2020: £15 million) equity contribution to the St William Homes LLP joint venture. Includes £38 million National Grid Partners investment (2020: £61 million).

This decrease was principally driven by lower UK Gas Transmission spend (River Humber Gas Pipeline Replacement Project), lower interconnector capex and non-recurrence of the Geronimo acquisition for NGV, partially offset by higher US spend on network repairs following storm activity, increased US transmission project spend, and higher capital spend on UK Electricity Transmission projects (Hinkley-Seabank and London Power Tunnels 2).

Achieved asset growth of 5.6% compared to 9.0% last year

During 2020/21, our combined regulated asset base and NGV and Other business assets grew by £2,400 million, or 5.6% on a constant currency basis. This compared to an increase of 9.0% in the prior year. UK RAV growth was 2.2% (including RPI indexation of 1.5%) while the US rate base grew strongly by 7.8%.

Year ended 31 March

Assets (£ million at constant currency)

	2021	2020	**% change**
UK RAV[1]	**20,872**	20,431	2 %
US rate base	**20,041**	18,598	8 %
Total RAV and rate base	**40,913**	39,029	5 %
NGV and Other businesses	**4,458**	3,942	13 %
Total	**45,371**	42,971	6 %

1. UK RAV excludes Cadent investment.

Value Added of £1.8 billion, driven by asset growth

Value Added	**As at 31 March**		**change**	
(£m constant currency)	**2021**	2020[1]	**2021**	**2020**
UK RAV	20,872	20,431	441	739
US rate base	20,041	18,598	1,443	2,237
NGV and Other businesses	4,458	3,942	516	754
Total	**45,371**	42,971	**2,400**	3,730
UK other regulated balances	(160)	(368)	208	(55)
US other regulated balances	1,974	1,613	361	(196)
Other balances	(336)	(514)	178	165
Total group assets and other balances	**46,849**	43,702	**3,147**	3,644
Increase in goodwill			—	81
Cash dividend			1,413	892
Adjusted net debt movement			(2,752)	(2,577)
Value Added			**1,808**	2,040
Value Added per Share[2]			**51.3p**	58.9p

1. Figures relating to prior periods have, where appropriate, been re-presented at constant currency and for opening balance adjustments following the completion of the UK regulatory reporting pack process in 2020.
2. Based on 3,523 million weighted average shares for 2020/21 (2019/20: 3,461 million).

Value Added, which reflects the key components of value delivery to shareholders (i.e. dividend and growth in the economic value of the Group's assets, net of growth in net debt) was £1,808 million in 2020/21. This was lower than last year's £2,040 million, as a result of lower rate base and RAV growth (lower indexation from closing RPI), higher adjusted net debt movement driven by higher storms and adverse timing movements, offset by a higher cash dividend. Of the £1.8 billion value added, £1.4 billion was paid to shareholders as cash dividends, and £0.4 billion was retained in the business. Value added per share was 51.3p compared with 58.9p in 2019/20.

FINANCIAL STRENGTH

Credit metrics remain strong, BBB+/Baa1 rating

During the year we raised over £5.6 billion of new long-term senior debt to refinance maturing debt and to fund a portion of our significant capital programme. The new bonds issued include further borrowings under our Green Financing Framework. We also used this framework to agree £539 million of ECA financing for our Viking interconnector.

We have £6.0 billion of undrawn committed facilities available for general corporate purposes, all of which have expiry dates beyond June 2023.

In March 2021, Moody's, S&P and Fitch all downgraded the senior unsecured credit ratings of National Grid plc and the majority of our rated operating subsidiaries by one notch. This action reflected the agencies' assessment that Group cash flow metrics would, for several years, no longer meet the thresholds previously expected. This reflected the combined impacts of the COVID-19 pandemic, increased levels of capital investment, delays to rate increases in our US operations and the cash flow impacts of the new RIIO-2 price control in the UK.

Retained cash flow as a proportion of adjusted net debt was 6.6%. This is slightly below the long-term average level of 7% indicated by Moody's as consistent with maintaining our current Group rating, although the metric this year has been impacted by a below average level of uptake of the scrip dividend option, alongside increased costs related to the COVID-19 pandemic, timing outflows and high levels of storm costs. The funds from operations to debt metric was 11.7%, in the middle of the target range for the current rating as indicated by S&P.

Regulatory gearing, measured as net debt as a proportion of total regulatory asset value and other business invested capital, was 65% as at 31 March 2021. This was up from 63% at the previous year-end. Taking into account the benefit of our hybrid debt, adjusted gearing as at 31 March 2021 was 63% and remains appropriate for the current overall Group credit rating of BBB+/Baa1 (S&P/Moody's).

Dividend increase of 1.2% recommended for 2020/21

The Board decided in March that, to reflect the move from RPI to CPIH in our UK regulated businesses, the aim from 2021/22 will be to grow the annual dividend per share in line with UK CPIH, thus maintaining the dividend per share in real terms. The Board will review this policy regularly, taking into account a range of factors including expected business performance and regulatory developments.

Our previous dividend policy, set out in 2013, was to grow the ordinary dividend per share at least in line with RPI inflation each year. The final year this policy applies to is 2020/21 and, as usual, the Board has taken into account a range of factors including expected business performance and regulatory developments.

For 2020/21, the Board has recommended an increase in the final dividend to 32.16 pence per ordinary share ($2.2812 per American Depositary Share) which will be paid to shareholders on the register as at 4 June 2021. If approved, this will bring the full year dividend to 49.16 pence per ordinary share, an increase of 1.2% over the 48.57 pence per ordinary share in respect of the financial year ending 31 March 2021. This rise is in line with the increase in UK RPI for the twelve months to 31 March 2021 as set out in the policy announcement of 28 March 2013.

A scrip dividend alternative will again be offered in respect of the 2020/21 final dividend.

OUTLOOK

Our five-year financial framework assumes the inclusion of WPD, the sale of NECO (Rhode Island) completing in Q1 of CY2022 and the sale of a majority stake of Gas Transmission being completed during FY2022/23.

Capital investment and Group asset growth

We expect to invest £30-£35 billion across our energy networks and adjacent businesses, in the UK and US, over the five-year period to 2025/26.

In the UK, we expect around £8 billion of investment in electricity transmission for asset health, anticipatory system reinforcement to facilitate offshore generation and other new onshore system connections.

In our US businesses, we expect investment of around £17 billion over the next five years. Over half of this will be safety related projects in our gas networks with the remainder in our electric networks such as for storm hardening, other net zero investments as well as further electric transmission investment.

We expect the WPD networks to invest £4-£5 billion over the next 5 years in asset maintenance, facilitating the infrastructure for electric vehicles and directly connected generation.

We expect NGV to invest £2-£3 billion over 5 years in completing the interconnector programme and US renewable generation.

As we work through our proposed transactions, coupled with the sum of these investments, and the broad economic protection our businesses have against rising macroeconomic variables such as inflation, group asset growth is expected to be 6-8% CAGR through to 2025/26.

Group gearing

We expect regulatory gearing to increase and to settle above 70% once all three transactions are completed. Combined with the benefit of our hybrid debt, we expect gearing levels, and the other standard metrics we monitor, to sit comfortably within our current BBB+/Baa1 corporate rating band from S&P and Moody's. As a result, we do not expect any further rating action at a Group level.

Group earnings growth and dividend growth

From 2020/21 through to 2025/26, we expect our compound annual growth rate in earnings per share to be in the 5 – 7 percent range, including our long run average scrip take up of 25% per annum, which will underpin our sustainable, progressive dividend policy into the future. As we complete our proposed transactions and work through COVID-19 recovery mechanisms, we expect to deliver earnings growth at or above the top end of this range in the early years of this period.

2021/22 FORWARD GUIDANCE

The forward guidance below assumes a scenario of continued gradual easing of lockdowns across our territories, together with cost recovery mechanisms that continue to be based on regulatory precedent. If other scenarios play out through the course of the year, then this could have a range of impacts on cashflows and earnings, which could be different from our current assessment.

This forward guidance is also based on our current businesses, with the sales of Rhode Island and a majority stake in National Grid Gas not assumed to finalise within this financial year. We do not provide guidance for WPD as we await deal closure, nor do we assume that the acquisition completes during this financial year for the purposes of our guidance on net debt. Once we start the sale process for Gas Transmission, we expect the business to be accounted for as a discontinued operation.

The outlook and forward guidance contained in this statement should be reviewed, together with the forward-looking statements set out in this release, in the context of the cautionary statement.

UK Electricity Transmission

Net Revenue (excluding timing) is expected to increase compared to 2020/21 by around £140 million, principally driven by higher totex workload, however this is expected to be more than offset by a combination of higher costs (including increased spend on cyber security and new roles for NGESO under RIIO-2) and depreciation, which is expected to increase by around £80 million reflecting the ongoing investment programme.

We will provide an update on **Return on Equity** at the Half-Year results in November.

UK Gas Transmission

Net Revenue (excluding timing) is expected to increase by approximately £40 million compared to 2020/21, but will be offset by cost increases and higher depreciation compared to 2020/21.

We will provide an update on **Return on Equity** at the Half-Year results in November.

UK Timing

Revenues are likely to be impacted by timing of recoveries including impacts from prior years. This should drive a small under-recovery of revenues in Electricity Transmission in 2021/22, but a larger over-recovery in Gas Transmission as we expect to recover the 2020/21 under-collections associated with the new capacity charging regime implemented last year.

US Regulated operations

Net Revenue (excluding timing) is expected to be around £200 million higher on a constant currency basis, reflecting rate increases under existing rate plans and the benefit of increased rates in 2021/22 for the KEDNY-KEDLI settlement, which was deferred from 2020/21. Costs are expected to be around £100 million lower, with inflationary pressures, additional workload and customer funded projects more than offset by lower bad debts, lower storm costs, a smaller impact from COVID-19 disruption and cost efficiencies. We expect depreciation to be higher in 2021/22 by over £50 million reflecting the higher level of asset growth.

We expect to recover most of the increased bad debts and additional COVID-19 related costs through regulatory mechanisms. The timing of recovery through revenues will depend on the outcome of negotiations with our regulators.

Return on Equity for overall US Regulated operations is expected to increase by over 100bps compared to 2020/21, as a result of the high level of non-deferrable storms incurred in 2020/21, increased revenues in 2021/22, along with effective cost control measures.

US Timing

Revenues will be impacted by timing of recoveries. We expect timing to be adverse relative to the timing outflow seen in 2020/21, as we continue to return net over-recovered balances.

NGV and Other activities

NGV operating profit is expected to increase by around 10% year-on-year due to the IFA2 interconnector becoming operational in January 2021, North Sea Link on track to become operational in Q4 2021, and higher profits in our NG Renewables business. Higher property sales, including delays to completions from 2020/21, should improve our results in Other activities.

Joint Ventures and Associates

Our share of the profit after tax of joint ventures and associates is expected to increase year-on-year by around 20%.

Interest and Tax

Net finance costs in 2021/22 are expected to increase by around £100 million compared to 2020/21, as a result of higher RPI inflation and increased net debt (through continued investment), partly offset by higher levels of capitalised interest.

For the full year 2021/22, the **underlying effective tax rate** relating to profit generated in the year, excluding the share of joint venture and associate post-tax profits, is expected to increase to around 22%.

Investment, Growth and Net Debt

Overall Group **capital investment** for 2021/22 is expected to increase significantly to around £6 billion, with increased spend across all our businesses. UK Transmission investment is expected to increase by nearly 25% year-over-year as large projects such as London Power Tunnels 2 and the Hinkley-Seabank connection progress. US Regulated investment should increase by around 10% as we deliver delayed investment in leak prone pipe due to the impact of COVID-19. Investment in NGV will also increase, driven by increased spend on onshore renewables.

Asset Growth is expected to be higher than 2020/21, reflecting our expectations for higher capex and increased inflation.

Depreciation is expected to increase, reflecting the impact of continued high levels of capital investment.

Operating cashflow generated from continuing operations is expected to increase with higher underlying operating profits and a favourable impact from year-on-year timing and storm costs. Increased capital investment spend is expected to mostly offset this.

Net debt is expected to increase by around £3 billion (excluding the impact of foreign exchange) from £28.6 billion at 31 March 2021 to help fund continued growth in the business. This figure excludes NECO net debt that has been reclassified to ‘held for sale’.

Weighted average number of shares (WAV) is expected to increase from 3,523 million last year to approximately 3,575 million in 2021/22 reflecting the impact of scrip shares, assuming a 25% scrip uptake.

FINANCIAL REVIEW

In managing the business, we focus on various non-IFRS measures which provide meaningful comparisons of performance between years, monitor the strength of the Group's balance sheet as well as profitability and reflect the Group's regulatory economic arrangements. Such alternative and regulatory performance measures are supplementary to, and should not be regarded as a substitute for, IFRS measures, which we refer to as statutory results. We explain the basis of these measures and, where practicable, reconcile these to statutory results in 'Alternative performance measures/non-IFRS reconciliations' on pages 69 to 80.

Also, we distinguish between adjusted results, which exclude exceptional items and remeasurements, and underlying results, which further take account of: (i) volumetric and other revenue timing differences arising from our regulatory contracts, and (ii) major storm costs which are recoverable in future periods, where these are in excess of $100 million in the year, neither of which give rise to economic gains or losses.

Performance for the year ended 31 March

Financial summary for continuing operations

(£ million)	2021	2020	change %
Statutory results			
Operating profit	**2,895**	2,780	4
Profit after tax	**1,641**	1,274	29
Earnings per share (pence)	**46.6**	36.8	27
Dividend per share (pence), including proposed final dividend	**49.16**	48.57	1.2
Alternative performance measures:			
Underlying operating profit	**3,283**	3,454	(5)
Underlying profit after tax	**1,911**	2,015	(5)
Adjusted earnings per share (pence)	**46.4**	55.2	(16)
Underlying earnings per share (pence)	**54.2**	58.2	(7)
Underlying dividend cover	**1.1**	1.2	(8)
Capital investment	**5,047**	5,405	(7)
Retained cash flow/adjusted net debt	**6.6 %**	9.2 %	(260)bps
Regulatory performance measures:			
Asset growth	**5.6 %**	9.0 %	-340bps
Group return on equity[1]	**10.6 %**	12.0 %	-140bps
Value added	**1,808**	2,040	(11)
Regulatory gearing	**65 %**	63 %	200bps

1.Revised from 11.7% in 2020.

The Group's statutory results for the year were impacted by exceptional charges. The impact on statutory EPS as a result of these charges is presented after each item. These included costs associated with the implementation of our new operating model (1.3p) and transaction costs associated with the acquisition of Western Power Distribution (WPD) and the sale of NECO expected to take place in 2021/22 (0.7p). Last year's statutory results were adversely impacted by additional environmental provisions, a reduction in the discount rate applied to certain provisions across the Group (8.6p) and a deferred tax charge due to the reversal of the expected reduction in the UK corporation tax rate originally enacted by the Finance Act 2016 (5.6p). The 2020/21 statutory results include an exceptional credit of (0.3p) for the £14 million release of environmental provisions relating to one of our US Superfund sites, where this was originally treated as an exceptional item.

Statutory operating profit was favourably impacted by commodity remeasurement gains of £34 million in 2020/21 (2019/20: £125 million losses) from mark-to-market movements on derivatives which are used to hedge the cost of buying wholesale gas and electricity on behalf of our US customers.

Underlying operating profit was down 5% (down 3% at constant currency) as higher rate case revenues in US Regulated and increased net revenues in UK Gas Transmission and NGV were more than offset by increased costs, including £103 million increase in US bad debt costs (with an estimated £67 million of this increase being COVID-19-related), and higher depreciation and amortisation, along with and lower levels of sales in our property business. The combination of these factors was partly offset by lower net financing costs, driven by lower inflation on RPI-linked debt and new borrowings issued at lower interest rates, partly offset by higher non-debt interest charges. A lower contribution was made by our joint ventures and associates and the tax charge was higher primarily due to reduction in tax credits relating to prior years. Underlying profit after tax decreased by 5% and, combined with a higher share count, resulted in a 7% decrease in underlying EPS to 54.2p.

Capital investment of £5.0 billion helped increase our asset growth to 6%. We delivered Value Added (our measure of economic profit) of £1.8 billion in 2020/21, lower than in 2019/20. Group RoE of 10.6% was lower than 12.0% for 2019/20, reflecting the impact of COVID-19 (excluding bad debts), higher level of non-deferrable storms in the US and lower level of property sales in the UK. RCF/net debt at 6.6% was lower than 9.2% in 2019/20. The recommended full-year dividend per share of 49.16 is in line with the policy of increasing in line with RPI inflation and is covered 1.1 times by underlying EPS. In March 2021, we announced that from 2021/22 onwards, the dividend policy will aim to deliver annual dividend per share growth in line with UK CPIH inflation.

Reconciliation of different measures of profitability and earnings

The table below reconciles our statutory profit measures for continuing operations, at actual exchange rates, to adjusted and underlying versions.

Reconciliation of profit and earnings from continuing operations

	Operating profit		Profit after tax		Earnings per share (pence)	
(£ million)	2021	2020	2021	2020	2021	2020
Statutory results	**2,895**	**2,780**	**1,641**	**1,274**	**46.6**	**36.8**
Exceptional items	65	402	57	491	1.6	14.2
Remeasurements	(34)	125	(64)	148	(1.8)	4.2
Adjusted results	**2,926**	**3,307**	**1,634**	**1,913**	**46.4**	**55.2**
Timing	207	147	166	102	4.7	3.0
Major storm costs	150	—	111	—	3.1	—
Underlying results	**3,283**	**3,454**	**1,911**	**2,015**	**54.2**	**58.2**

In calculating adjusted profit measures, where we consider it is in the interests of users of the financial statements to do so we exclude certain discrete items of income or expense that we consider to be exceptional in nature. The table below summarises such items; full details are contained in note 4 to the financial statements together with an explanation of the process used to make this determination.

Exceptional expense for continuing operations

	Impact on operating profit		Impact on profit after tax		Impact on EPS (pence)	
(£ million)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Changes in environmental provision	14	(402)	11	(299)	0.3	(8.6)
Transaction costs	(24)	—	(24)	—	(0.7)	—
New operating model implementation costs	(55)	—	(44)	—	(1.2)	—
Deferred tax arising on the reversal of the reduction in UK corporation tax rate	—	—	—	(192)	—	(5.6)
Total	**(65)**	**(402)**	**(57)**	**(491)**	**(1.6)**	**(14.2)**

This year we have classified the following items as exceptional:

- **Changes in environmental provisions:** a £14 million credit in relation to a reduction in the environmental provision booked in 2019/20 as exceptional;
- **Transaction costs:** £24 million of transaction costs associated with the acquisition of Western Power Distribution (WPD) and the sale of NECO expected to take place during 2021/22; and
- **New operating model implementation costs:** £55 million of costs in relation to the design and implementation of our new operating model that is designed to transform our operating framework and will be built on a foundation of six business units**.**

In the prior year we classified the £402 million of environmental costs (comprising a £326 million increase in the provision for clean-up related to former manufacturing gas plant facilities, formerly owned or operated by the Group or its predecessor companies and £76 million for the impact of a reduction of 0.5% in the real discount rate applied to the environmental provisions across the Group); and a £192 million impact on deferred tax as a result of the reversal of the provisions of The Finance Act 2016 which reduced the UK corporation tax rate to 17% with effect from April 2020.

We also exclude certain unrealised gains and losses on mark-to-market financial instruments from adjusted profit; see notes 4 and 5 to the financial statements for further information. Net remeasurement gains of £34 million on commodity contract derivatives were incurred in addition to net remeasurement gains of £72 million on financing-related instruments and a further £8 million of remeasurement losses related to our share of post-tax results of joint ventures.

Timing over/(under)-recoveries

In calculating underlying profit, we exclude regulatory revenue timing over- and under-recoveries and major storm costs (as defined below). Under the Group's regulatory frameworks, most of the revenues we are allowed to collect each year are governed by regulatory price controls in the UK and rate plans in the US. If more than this allowed level of revenue is collected, an adjustment will be made to future prices to reflect this over-recovery; likewise, if less than this level of revenue is collected, an adjustment will be made to future prices in respect of the under-recovery. We also collect revenues from customers and pass these on to third parties (e.g. NYSERDA). These variances between allowed and collected revenues and timing of revenue collections for pass-through costs give rise to over- and under-recoveries.

The following table summarises management's estimates of such amounts for the two years ended 31 March 2021. All amounts are shown on a pre-tax basis and, where appropriate, opening balances are restated for exchange adjustments and to correspond with subsequent regulatory filings and calculations. All amounts are translated at the current year average exchange rate of $1.34:£1.

Timing over/(under)-recoveries

(£ million)	**2021**	**2020**
Balance at start of year (restated)[1]	261	384
In-year over/(under)-recovery	**(207)**	**(137)**
Balance at end of year	54	247

1. March 2019 opening balances adjusted to correspond with 2018/19 regulatory filings and calculations.

In 2020/21, we experienced timing under-recoveries of £88 million in UK Electricity Transmission, £96 million in UK Gas Transmission and £23 million in US Regulated. In calculating the post-tax effect of these timing recoveries, we impute a tax rate, based on the regional marginal tax rates, consistent with the relative mix of UK and US balances.

Major storm costs

We also take account of the impact of major storm costs in the US where the aggregate amount is sufficiently material in any given year. Such costs (net of certain deductibles) are recoverable under our rate plans but are expensed as incurred under IFRS. Accordingly, where the total incurred cost (after deductibles) exceeds $100 million in any given year, we exclude the net costs from underlying earnings. In 2020/21, we experienced around double the number of storms events compared to the prior year, resulting in $201 million of deferrable storm costs, which are eligible for future recovery. In 2019/20 we experienced $98 million of deferrable storm costs. This value fell just below the $100 million threshold and as such was not excluded from our underlying results, even though these costs are also eligible for future recovery

Segmental income statement

The tables below set out operating profit on adjusted and underlying bases.

	Adjusted operating profit			Underlying operating profit		
£ million	**2021**	**2020**	**change %**	**2021**	**2020**	**change %**
UK Electricity Transmission	**1,034**	1,320	(22)	**1,122**	1,174	(4)
UK Gas Transmission	**342**	348	(2)	**438**	402	9
US Regulated	**1,313**	1,397	(6)	**1,486**	1,636	(9)
NGV and Other activities	**237**	242	(2)	**237**	242	(2)
Total operating profit	**2,926**	3,307	(12)	**3,283**	3,454	(5)
Net finance costs	**(942)**	(1,049)	(10)	**(942)**	(1,049)	(10)
Share of post-tax results of joint ventures and associates	**66**	88	(25)	**66**	88	(25)
Profit before tax	**2,050**	2,346	(13)	**2,407**	2,493	(3)
Tax	**(416)**	(433)	(4)	**(496)**	(478)	4
Profit after tax	**1,634**	1,913	(15)	**1,911**	2,015	(5)
Earnings per share (pence)	**46.4**	55.2	(16)	**54.2**	58.2	(7)

The statutory operating profit increased in the year primarily as a result of the £402 million exceptional charges made in 2019/20, partly offset by adverse movements on timing under-recoveries and higher storm costs. The reasons for the movements in underlying operating profit are described in the Business Review.

Financing costs and tax

Net finance costs

Net finance costs (excluding remeasurements) for the year were 10% lower than last year at £942 million, with the £107 million decrease driven by the impact of lower inflation on our RPI-linked debt, new debt issued at lower rates, a higher net debt as a result of asset growth, termination fees incurred in the prior year and favourable foreign exchange movements, partly offset by higher interest on pension and OPEB liabilities and a higher benefit from interest on tax settlements in 2019/20. The effective interest rate of 3.2% on net debt was 90bps lower than the prior year rate of 4.1%.

Joint ventures and associates

The Group's share of net profits from joint ventures and associates reduced by £22 million compared to 2019/20 mainly as a result of lower contributions from BritNed (due to an unplanned outage caused by a cable fault) and lower sales in our St William property joint venture. Our Nemo Link interconnector and National Grid Renewables both showed improved performances.

Tax

The underlying effective tax rate of 21.2% was 130bps higher than last year. The tax charge for 2019/20 benefited from a higher release of reserves following settlement of tax audits relating to earlier years.

Discontinued operations

Last year, we completed the sale of a 39% interest in Quadgas HoldCo Limited (Quadgas), the holding company for Cadent and treated all items of income and expense relating to the disposal of Quadgas within discontinued operations.

Cash flow, net debt and funding

Net debt is the aggregate of cash and cash equivalents, borrowings, current financial and other investments and derivatives (excluding commodity contract derivatives) as disclosed in note 12. 'Adjusted net debt' used for the RCF/adjusted net debt calculation is principally adjusted for pension deficits and hybrid debt instruments. For a full reconciliation see page 74.

The following table summarises the Group's cash flow for the year, reconciling this to the change in net debt.

Summary cash flow statement

£ million	2021	2020	change %
Cash generated from continuing operations	**4,618**	**4,914**	**(6)**
Cash capital expenditure and acquisition of investments	(4,920)	(5,098)	(3)
Dividends from joint ventures and associates	80	75	7
Business net cash flow from continuing operations	**(222)**	**(109)**	**104**
Net interest paid	(819)	(884)	(7)
Net tax (paid)/received	(157)	(199)	(21)
Ordinary dividends	(1,413)	(892)	58
Other cash movements	14	10	40
Net cash flow from continuing operations	**(2,597)**	**(2,074)**	**25**
Quadgas sale proceeds	—	1,965	n/a
Discontinued operations	—	(91)	(100)
Net cash flows from other investing and financing transactions	2,692	17	n/a
Increase/(decrease) in cash and cash equivalents	95	(183)	(152)
Reconciliation to movement in net debt			
Increase/(decrease) in cash and cash equivalents	95	(183)	(152)
Less: net cash flows from other investing and financing transactions	(2,692)	(17)	n/a
Cash and borrowings reclassified to held for sale	1,119	—	n/a
Other non-cash movements in net debt	1,522	(1,387)	(210)
Increase in net debt	**44**	**(1,587)**	**(103)**
Net debt at start of year	(28,590)	(26,529)	8
Impact of adoption of IFRS 16	—	(474)	n/a
Net debt at end of year	**(28,546)**	**(28,590)**	**—**

Cash flow generated from continuing operations was £4.6 billion, £0.3 billion lower than last year, mainly due to adverse timing and increased storm costs, lower cash collections, lower revenues and incremental costs as a result of COVID-19, higher spend on provisions, the impact of year-on-year exchange rate movements, offset by favourable working capital inflows on payables. Cash expended on investment activities decreased as a result of lower investment in UK Gas Transmission and NGV (including last year's acquisition of Geronimo) and movements in capex prepayments and accruals. Net interest paid decreased in spite of the growth in net debt as a result of lower rates and hybrid termination fees incurred in 2019/20. The Group made net tax payments of £157 million during 2020/21. A 17% scrip take-up in the year reduced the cash dividend to £1,413 million, but this was £521 million higher than in 2019/20, when the scrip take-up was 46%. In 2019/20, proceeds of £1,965 million (plus £6 million of interest) from the Quadgas HoldCo Limited disposal, were partly offset by outflows for residual provisions and accruals classified within discontinued operations. Non-cash movements primarily reflect changes in the sterling-dollar exchange rate, accretions on index-linked debt, finance lease additions and other derivative fair value movements. Closing net debt of £28.5 billion excludes £1.1 billion of net debt in NECO which was reclassified as held for sale on 31 March 2021.

During the year we raised over £5.6 billion of new long-term senior debt to refinance maturing debt and to fund a portion of our significant capital programme. The new bonds issued include further borrowings under our Green Financing Framework. We also used this framework to agree £539 million of ECA financing for our Viking interconnector. As at 30 April 2021, we have £6.0 billion of undrawn committed facilities available for general corporate purposes, all of which have expiry dates beyond June 2023.

In March 2021, Moody's, S&P and Fitch all downgraded the senior unsecured credit ratings of National Grid plc and the majority of our rated operating subsidiaries by one notch. This action reflected the agencies' assessment that Group cash flow metrics would, for several years, no longer meet the thresholds previously expected. This reflected the combined impacts of the COVID-19 pandemic, increased levels of capital investment, delays to rate increases in our US operations and the cash flow impacts of the new RIIO-2 price control in the UK.

The Board has considered the Group's ability to finance normal operations as well as funding a significant capital programme, in light of the disruption caused by COVID-19. This includes stress-testing of the Group's finances under a 'reasonable worst case' scenario, assessing the impact of the acquisition of WPD (and any penalties if the transaction did not proceed), the timing of the NECO and National Grid Gas plc transactions, and the further levers at the Board's discretion to ensure our businesses are adequately financed. As a result, the Board has concluded that the Group will have adequate resources to do so.

BUSINESS REVIEW

In addition to IFRS based profit measures, National Grid calculates a number of additional regulatory performance metrics to aid understanding of the performance of the regulated businesses. These metrics aim to reflect the impact of performance in the current year on future regulatory revenue allowances. This includes the creation of future regulatory revenue adjustment balances and the impact of current year performance on the regulated asset base. These metrics also seek to remove the impacts on current year revenues relating to "catch up" or "sharing" of elements of prior year performance, for example the sharing of prior year efficiencies with customers.

These metrics include **Return on Equity**, **Regulated Financial Performance** and **Regulated Asset Value or Regulated Rate Base**. Further detail on these is provided on pages 69 to 80.

Year ended 31 March	Regulatory Debt:Equity assumption	Achieved Return on Equity		Base or Allowed Return on Equity	
%		**2021**	2020	**2021**	2020
UK Electricity Transmission	60/40	**13.9**	13.5	**10.2**	10.2
UK Gas Transmission	62.5/37.5	**9.6**	9.8	**10.0**	10.0
UK Weighted Average		***12.6***	*12.4*	***10.1***	*10.1*
US Regulated	Avg. 50/50	**7.2**	9.3	**9.4**	9.4
Group[1]		**10.6**	12.0		

1. Group ROE in 2019/20 has been recalculated as 12.0% (previously 11.7%), reflecting the revision to decrease the comparative goodwill balance (see note 1 for details).

As at 31 March	RAV, Rate Base or other business assets		Total Regulated and other balances[1]	
(£ million, at constant currency)	**2021**	2020	**2021**	2020
UK Electricity Transmission	**14,565**	14,133	**14,379**	13,772
UK Gas Transmission	**6,307**	6,298	**6,333**	6,291
US Regulated	**20,041**	18,598	**22,015**	20,211
Total regulated	**40,913**	39,029	**42,727**	40,274
NGV and Other balances	**4,458**	3,942	**4,122**	3,428
Group regulated and other balances	**45,371**	42,971	**46,849**	43,702

1. March 2020 opening balances adjusted to correspond with 2019/20 regulatory filings and calculations.

UK ELECTRICITY TRANSMISSION

Regulated Returns and Financial Performance reflect efficiency and incentive delivery

Return on Equity above base levels

RoE for the year, normalised for a long-run inflation rate of 3%, was 13.9% compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.2%. The principal components of the difference are shown in the table below:

Year ended 31 March	2021	2020
Base return (including avg. 3% long-run inflation)	10.2	10.2
Totex incentive mechanism	2.4	2.5
Other revenue incentives	0.3	0.1
Return including in year incentive performance	12.9	12.8
Pre-determined additional allowances	1.0	0.7
Return on Equity	**13.9**	**13.5**

Totex incentives contributed 240 basis points from efficiency savings across our asset health programmes and high-performing load-related schemes. We continued to deliver strong performance under the stakeholder engagement, customer satisfaction and environmental discretionary reward incentive schemes.

Regulated Financial Performance up 2% year-on-year

The regulated financial performance calculation adjusts reported operating profit to reflect the impact of the business' regulatory arrangements when presenting financial performance.

Regulated financial performance for UK Electricity Transmission increased to £1,352 million from £1,324 million. The year-on-year increase principally reflects higher achieved RoE underpinned by strong incentive performance.

Reconciliation of regulated financial performance to operating profit (£ million)	2021	2020	% change
Operating profit	**1,034**	**1,320**	**(22)**
Movement in other regulated assets and liabilities	188	(99)	(290)
Deferred tax adjustment	60	63	(5)
RAV indexation (avg. 3% long-run inflation)	424	406	4
Regulatory v IFRS depreciation difference	(439)	(459)	(4)
Fast money/other	28	26	8
Pensions	(54)	(52)	4
Performance RAV created	111	119	(7)
Regulated Financial Performance	**1,352**	**1,324**	**2**

Regulated Financial Position up 4.4%

In the year, RAV grew by 3.1%, down on last year's growth rate driven primarily by lower inflation linked growth in the RAV (1.5% 2020/21 versus 2.6% 2019/20).

	2021	2020
Opening Regulated Asset Value (RAV)	14,133	13,537
Asset additions (slow money) – actual	1,057	1,048
Performance RAV or assets created	111	119
Inflation adjustment (actual RPI)	210	357
Depreciation and amortisation	(946)	(928)
Closing RAV	**14,565**	**14,133**
Opening balance of other regulated assets and (liabilities)	(374)	(265)
Movement	188	(99)
Closing balance	**(186)**	**(364)**
Closing Regulated Financial Position	**14,379**	**13,769**

APPENDIX to UK ELECTRICITY TRANSMISSION

Revenue and Costs in 2020/21 on an IFRS basis

UK Electricity Transmission statutory operating profit was £289 million lower in the year, mainly due to timing movements. In 2020/21, there were £7 million of exceptional costs related to establishing our new operating model, compared to £4 million of environmental charges in the prior year. Timing under-recoveries of £88 million in 2020/21 compared to over-recoveries of £146 million in 2019/20 are primarily due to lower half-hourly volumes, lower collection of prior year balances and under-recovery of balancing services costs in NGESO due to the Balancing Services Use of System (BSUoS) COVID-19 support scheme.

Adjusted operating profit reduced by £286 million (22%), predominantly driven by £234 million adverse year-on-year timing movements. Underlying operating profit decreased by 4%. Net revenues (adjusted for timing) were relatively flat, with higher incentives income, legal settlements, diversion income and the RPI uplift, being offset by the lower re-opener allowances for cyber and data centres and funding for ESO legal separation in 2019/20. Regulated controllable costs were lower, with efficiency savings and the absence of prior period one-off costs partly offset by higher IT costs and COVID-19-related costs. Other costs were higher, mainly relating to customer diversion costs which are offset by higher revenue.

The increase in depreciation and amortisation charges reflects continued investment including a full year charge for Western Link and a benefit from the release of provisions in 2019/20.

UK Electricity Transmission

(£ million)	2021	2020	% change
Revenue	3,992	3,702	8
Operating costs	(2,965)	(2,386)	24
Statutory operating profit	**1,027**	**1,316**	**(22)**
Exceptional items	7	4	75
Adjusted operating profit	**1,034**	**1,320**	**(22)**
Timing	88	(146)	n/a
Underlying operating profit	**1,122**	**1,174**	**(4)**
Net revenue (adjusted for timing)	2,018	2,028	—
Regulated controllable costs	(291)	(306)	(5)
Post-retirement benefits	(45)	(48)	(6)
Other operating costs	(53)	(31)	71
Depreciation and amortisation	(507)	(469)	8
Underlying operating profit	**1,122**	**1,174**	**(4)**
Timing	(88)	146	n/a
Adjusted operating profit	**1,034**	**1,320**	**(22)**

UK GAS TRANSMISSION

Return on Equity lower than base levels

RoE for the year, using a long-run inflation rate of 3%, was 9.6%. The principal components of the performance are shown in the table below.

Year ended 31 March	2021	2020
Base return (including avg. 3% long-run inflation)	10.0	10.0
Totex incentive mechanism	(0.9)	(0.7)
Other revenue incentives	0.9	1.1
Return including in year incentive performance	10.0	10.4
Pre-determined additional allowances	(0.4)	(0.6)
Return on Equity	**9.6**	**9.8**

The RoE was 20 bps lower than 2019/20 and slightly lower than the allowed level. This slight underperformance reflects the higher costs of delivering key compressor projects and our new data centres.

Regulated Financial Performance down 3% year-on-year

The regulated financial performance calculation adjusts reported operating profit to reflect the impact of the business' regulatory arrangements when presenting financial performance. Regulated financial performance for UK Gas Transmission was lower than prior year at £457 million principally reflects lower RoE performance driven by higher cost to deliver key capital projects and lower incentive performance as a result of higher gas prices.

Reconciliation of regulated financial performance to operating profit (£ million)	**2021**	**2020**	**% change**
Operating profit	**342**	**348**	**(2)**
Movement in other regulated assets and liabilities	34	67	(49)
Deferred tax adjustment	12	25	(52)
RAV indexation (3% long-run avg.)	189	185	2
Regulatory v IFRS depreciation difference	(88)	(77)	14
Fast money/other	25	(17)	(247)
Pensions	(34)	(34)	—
Performance RAV created	(23)	(24)	(4)
Regulated Financial Performance	**457**	**473**	**(3)**

Regulated Financial Position increased 0.4%

In the year, RAV growth was broadly flat compared to 2.3% in 2019/20. The reduction in growth reflects lower capital expenditure and lower inflation linked growth in the RAV.

£ million	**2021**	**2020**
Opening Regulated Asset Value (RAV)	6,298	6,155
Asset additions (slow money) actual	193	253
Performance RAV or assets created	(23)	(24)
Inflation adjustment (actual RPI)	92	162
Depreciation and amortisation	(253)	(248)
Closing RAV	**6,307**	**6,298**
Opening balance of other regulated assets and (liabilities)	(8)	(60)
Movement	34	67
Closing balance	**26**	**7**
Closing Regulated Financial Position	**6,333**	**6,305**

APPENDIX to UK GAS TRANSMISSION

Revenue and costs in 2020/21 on an IFRS basis

UK Gas Transmission statutory operating profit decreased £10 million in the year. In 2020/21 there were £5 million of exceptional costs related to establishing our new operating model, compared to £1 million of environmental charges in the prior year. Timing under-recoveries of £96 million in 2020/21 compared to £54 million in the prior year primarily as a result of under-collections relating to the new gas capacity charging regime and lower demand, partly offset by a lower return of prior period over-recoveries.

Adjusted operating profit reduced by £6 million (2%), including £42 million year-on-year adverse timing under-recoveries. Underlying operating profit increased by 9%. Net revenue (adjusted for timing) was higher, reflecting the impact of prior year return of Fleetwood allowances and the RPI uplift, partly offset by re-opener allowances (in 2019/20) for cyber and data centres and lower incentives income. Regulated controllable costs were £5 million lower, mainly driven by efficiency savings. Other costs were higher principally due to increased asset decommissioning costs.

UK Gas Transmission

(£ million)	2021	2020	% change
Revenue	904	927	(2)
Operating costs	(567)	(580)	(2)
Statutory operating profit	**337**	**347**	**(3)**
Exceptional items	5	1	400
Adjusted operating profit	**342**	**348**	**(2)**
Timing	96	54	78
Underlying operating profit	**438**	**402**	**9**
Net revenue (adjusted for timing)	767	739	4
Regulated controllable costs	(122)	(127)	(4)
Post-retirement benefits	(18)	(19)	(5)
Other operating costs	(24)	(20)	20
Depreciation and amortisation	(165)	(171)	(4)
Underlying operating profit	**438**	**402**	**9**
Timing	(96)	(54)	78
Adjusted operating profit	342	348	(2)

US REGULATED OPERATIONS

Return on Equity

During the year, the financial performance of the US regulated business was impacted by additional costs of COVID-19, and a greater number of storms, with our achieved RoE decreasing by 210 basis points to 7.2% (excluding COVID-19 related bad debts). Adjusting for these headwinds, and the impact of rate case delays, the RoE would have been 8.6% or 92% of the allowed return.

Regulated Financial Position

Overall, the US rate base increased by $2.0 billion (8%) to $27.6 billion[8] driven by increased capital expenditure partially offset by depreciation and deferred tax movements.

US Regulated Assets ($ billion as at 31 March)	**2021**	**2020[1]**	**% change**
Rate Base excl. working capital (w/c)	26.8	24.9	8
Working capital in Rate Base	0.8	0.7	14
Total Rate Base	**27.6**	25.6	8
Reg. assets outside Rate Base excl. w/c	3.2	2.7	18
Working capital outside Rate Base	(0.6)	(0.4)	62
Total regulated assets outside Rate Base	**2.5**	2.3	10
Total US Regulated Assets	**30.2**	27.9	8

£ billion as at 31 March	**2021**	**2020**	**% change**
Total US Regulated Assets at actual currency	**21.9**	22.4	(2)
Total US Regulated Assets at constant currency	**21.9**	20.2	8

1. 2020 restated for movements between categories.

[8] Not including Assets Outside Rate Base.

Financial performance

US Regulated (£ million)	**2021**	**2020**	**2020 at constant currency**	**% change at actual currency**
Revenue	9,195	9,205	8,833	—
Operating costs	(7,851)	(8,325)	(7,989)	(6)
Statutory operating profit	**1,344**	**880**	**844**	**53**
Exceptional items	3	392	376	(99)
Remeasurements	(34)	125	121	(127)
Adjusted operating profit	**1,313**	**1,397**	**1,341**	**(6)**
Timing	23	239	229	(90)
Major storm costs	150	—	—	—
Underlying operating profit	**1,486**	**1,636**	**1,570**	**(9)**
Net revenue (adjusted for timing)	5,965	5,984	5,742	—
Regulated controllable costs	(1,905)	(1,871)	(1,795)	2
Post-retirement benefits	(97)	(95)	(91)	2
Bad debt expense	(325)	(231)	(222)	41
Other operating costs	(1,264)	(1,296)	(1,244)	(2)
Depreciation and amortisation	(888)	(855)	(820)	4
Underlying operating profit	**1,486**	**1,636**	**1,570**	**(9)**
Timing	(23)	(239)	(229)	(90)
Major storm costs	(150)	—	—	—
Adjusted operating profit	1,313	1,397	1,341	(6)

US Regulated statutory operating profit increased by £464 million, partly as a result of the £159 million year-on-year favourable movements in commodity contract remeasurements and adverse exchange rate movements, but mainly from the non-recurrence of exceptional charges booked in the prior year. In 2020/21, exceptional charges were lower comprising £17 million of costs related to establishing our new operating model and transaction costs, mostly offset by a £14 million environmental credit (reversal of cost previously booked as exceptional). In 2019/20, £392 million of exceptional charges were incurred for environmental costs related to the clean up of former manufacturing gas plant facilities. Timing under-recoveries of £23 million in 2020/21 compared to timing under-recoveries of £239 million in 2019/20, driven by revenue decoupling, commodity recoveries, partly offset by a higher return of NYSERDA and transmission wheeling prior period balances. Storm costs (deferrable and non-deferrable) were £142 million higher year on year. These factors, along with an adverse impact from COVID-19 disruption and a weaker US dollar, resulted in an overall increase in statutory operating profit, but a decrease in adjusted operating profit.

Adjusted operating profit decreased by £84 million (6%), despite £216 million year-on-year favourable timing under-recoveries. in 2020/21, we experienced higher total storm costs compared to 2019/20. In 2020/21, we incurred £150 million of deferrable storm costs, which exceeded our $100 million threshold to qualified as major and be excluded from our underlying results. In 2019/20 we incurred £76 million of deferrable storm costs, which fell below this threshold. Underlying operating profit decreased by 9%. Net revenues (adjusted for timing) increased by £223 million (at constant currency) from the benefits of rate case increments (including Niagara Mohawk and Mass Electric), capital trackers and higher revenues in wholesale networks, but were offset by a £242 million adverse impact from foreign exchange movements. A weaker US dollar decreased underlying operating profit by £66 million in the year. US Regulated controllable costs increased as a result of higher IT costs, inflation, incremental COVID-19 costs, partly offset by cost mitigations and efficiencies. Provisions for bad and doubtful debts increased by £94 million, driven by a further £179 million (2019/20: £117 million) additional provision for receivables related to the impact of COVID-19. Depreciation and amortisation increased due to the growth in assets. Other costs were higher due to increased property taxes and higher non-deferrable storm costs partly offset by lower cost of removal.

	Return on Equity				*Rate Base ($m) as at 31 March*		
Regulated Entity	**FY21**	**FY20**	**FY19**	***Allowed most recent (%)***	**2021**	**2020**	**% change**
KEDNY	**6.1**	7.7	6.2	*9.0*	4,958	4,555	9
KEDLI	**8.2**	9.7	9.9	*9.0*	3,158	2,932	8
NMPC Gas	**7.2**	8.7	9.8	*9.0*	1,467	1,328	10
NMPC Electric	**6.3**	8.9	9.4	*9.0*	6,206	5,881	6
Total New York	**6.7**	**8.7**	**8.6**	***9.0***	**15,789**	**14,696**	**7**
Massachusetts Gas	**5.7**	7.8	7.4	*9.5*	3,521	3,108	13
Massachusetts Electric	**5.3**	10.3	7.8	*9.6*	3,033	2,858	6
Total Massachusetts	**5.5**	**9.0**	**7.6**	***9.5***	**6,554**	**5,966**	**10**
Narragansett Gas	**6.9**	8.8	4.7	*9.3*	1,082	944	15
Narragansett Electric	**10.0**	11.9	10.7	*9.3*	950	895	6
Total Rhode Island	**8.4**	**10.3**	**7.7**	***9.3***	**2,032**	**1,839**	**10**
Long Island Generation	**12.2**	14.1	14.2	*9.9*	440	456	(4)
New England Power	**11.0**	11.0	11.0	*10.6*	1,970	1,844	7
Narragansett Electric Transmission	**11.1**	11.1	11.3	*10.6*	787	788	—
Canadian Interconnector & Other	**13.0**	13.0	13.0	*13.0*	58	52	12
Total FERC	**11.2**	**11.4**	**11.5**	***10.6***	**3,255**	**3,140**	**4**
Total US Regulated	**7.2**	**9.3**	**8.8**	***9.4***	**27,630**	**25,641**	**8**

NGV AND OTHER ACTIVITIES

	Operating profit				Capital investment[1]			
(£ million)	2021	2020	2020 at constant currency	change % at constant currency	2021	2020	2020 at constant currency	change % at constant currency
Metering	**154**	158	158	(3)	**27**	41	41	(34)
Interconnectors	**60**	61	61	(2)	**378**	498	498	(24)
Grain LNG	**104**	78	78	33	**20**	7	7	186
NG Renewables	**(18)**	(9)	(9)	n/a	**—**	123	115	n/a
Other	**(2)**	(19)	(18)	(89)	**6**	—	—	—
Total NGV	**298**	269	270	10	**431**	669	661	(35)
Property	**22**	63	63	(65)	**19**	4	4	375
NG Partners	**1**	(11)	(11)	(109)	**35**	50	48	(27)
Corporate and other activities	**(84)**	(79)	(79)	6	**10**	5	5	100
Total Other	**(61)**	(27)	(27)	126	**64**	59	57	12
Total NGV and Other	**237**	242	243	(2)	**495**	728	718	(31)

1. Excluding investment in joint ventures and associates.

Joint ventures and associates

	Share of post-tax results				Capital investment			
(£ million)	2021	2020	2020 at constant currency	change % at constant currency	2021	2020	2020 at constant currency	change % at constant currency
Interconnectors	**26**	29	29	(10)	**—**	—	—	—
Millennium	**22**	22	21	5	**—**	—	—	—
Sunrun	**—**	13	13	(100)	**—**	—	—	n/a
NG Renewables	**5**	1	1	n/a	**72**	127	120	n/a
Other	**3**	2	2	50	**6**	19	18	(67)
Total NGV	**56**	67	66	(15)	**78**	146	138	(43)
NG Partners	**5**	3	3	67	**3**	11	11	(73)
Other (including St William)	**5**	18	18	(72)	**—**	—	—	n/a
Total Other	**10**	21	21	(52)	**3**	11	11	(73)
Joint Ventures and Associates	**66**	88	87	(24)	**81**	157	149	(46)

NATIONAL GRID VENTURES

National Grid Ventures' statutory operating profits were £29 million higher than 2019/20, with lower depreciation driven by the extension of asset lives at our LNG import terminal at Grain, commencement of operations at our second interconnector (IFA2) between England and France and fair value gains in our US Ventures business. These were partly offset by lower prior year one-off benefits in our legacy French interconnector (IFA1), lower revenues from our declining meter population and a £2 million exceptional charge in relation to establishing our new operating model, compared to a £1 million charge for environmental costs in 2019/20.

OTHER ACTIVITIES

In 'other' activities, we incurred an exceptional charge of £25 million related to establishing our new operating model and £24 million of transaction costs for the acquisition of WPD and the sale of NECO, both expected to take place during 2021/22, compared to a £3 million charge for environmental costs in the prior year. In 2020/21, underlying operating profit included net costs of £61 million (including corporate costs), compared to £27 million in 2019/20. The underlying performance of the Property business was £41 million lower than prior year reflecting a lower volume of sales compared to 2019/20.

National Grid Partners (NGP)

NGP, our corporate investment and innovation arm, continued delivering for the Group during the year. As of 31 March 2021, NGP's portfolio comprised investments in 23 companies and four funds at a fair value of £178 million. It invests in emerging technologies such as Artificial Intelligence (AI), Data Security and Cybersecurity, and embeds those innovations across our US and UK core operations, helping to improve National Grid's performance.

In collaboration with NGP portfolio company Urbint, for example, National Grid is using AI to focus our damage prevention resources with the potential to save millions of dollars annually in avoided damage and to minimise disruption to critical networks. Additionally, NGP launched the NextGrid Alliance (NGA), a consortium of over 65 utilities where best practices and technology innovations are shared across areas including modernising utility infrastructure and keeping power grids safe from cyber threats. Later this year, NGP will host its first NGA Summit in the UK as part of COP26.

NGP will continue to deliver strategic and financial value to our core businesses and investing in valuable start-up technologies, tackling innovation and business development projects that can improve our company performance and acting as a catalyst for change across the broader Group.

PROVISIONAL 2020/21 FINANCIAL TIMETABLE

Date	Event
20 May 2021	2020/21 Preliminary Results
3 June 2021	ADRs and Ordinary shares go ex-dividend
4 June 2021	Record date for 2020/21 final dividend
10 June 2021	Scrip reference price announced
21 July 2021 (5pm London time)	Scrip election date
26 July 2021	2021 Annual General Meeting
18 August 2021	2020/21 final dividend paid to qualifying shareholders
18 November 2021	2021/22 half year results
2 December 2021	ADRs and Ordinary shares go ex-dividend
3 December 2021	Record date for 2021/22 interim dividend
9 December 2021	Scrip reference price announced
20 December 2021 (5pm London time)	Scrip election date for 2021/22 interim dividend
19 January 2022	2021/22 interim dividend paid to qualifying shareholders

American Depositary Receipt (ADR) Deposit Agreement

National Grid amended the deposit agreement under which the ADRs representing its ordinary shares are issued to allow a fee of up to $0.05 per ADR to be charged for any cash distribution made to ADR holders, including cash dividends. ADR holders who receive cash in relation to the 2020/21 final dividend will be charged a fee of $0.02 per ADR, by the Depositary prior to distribution of the cash dividend.

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. 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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 as well as increased economic uncertainty following the COVID-19 pandemic; 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; 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 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 acquisition 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 227 to 230 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 2020 published on 12 November 2020. 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.

Consolidated income statement
for the years ended 31 March

2021	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a),3	**14,779**	**—**	**14,779**
Provision for bad and doubtful debts		**(326)**	**—**	**(326)**
Other operating costs	4	**(11,527)**	**(31)**	**(11,558)**
Operating profit/(loss)	2(b)	**2,926**	**(31)**	**2,895**
Finance income	4,5	**35**	**23**	**58**
Finance costs	4,5	**(977)**	**49**	**(928)**
Share of post-tax results of joint ventures and associates		**66**	**(8)**	**58**
Profit before tax	2(b)	**2,050**	**33**	**2,083**
Tax	4,6	**(416)**	**(26)**	**(442)**
Total profit for the year		**1,634**	**7**	**1,641**
Attributable to:				
Equity shareholders of the parent		**1,633**	**7**	**1,640**
Non-controlling interests from continuing operations		**1**	**—**	**1**
Earnings per share (pence)				
Basic earnings per share (continuing)	7			**46.6**
Diluted earnings per share (continuing)	7			**46.3**
Basic earnings per share (continuing and discontinued)	7			**46.6**
Diluted earnings per share (continuing and discontinued)	7			**46.3**

2020	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a),3	14,540	—	14,540
Provision for bad and doubtful debts		(234)	—	(234)
Other operating costs	4	(10,999)	(527)	(11,526)
Operating profit/(loss)	2(b)	3,307	(527)	2,780
Finance income	4,5	70	(16)	54
Finance costs	4,5	(1,119)	(48)	(1,167)
Share of post-tax results of joint ventures and associates		88	(1)	87
Profit/(loss) before tax	2(b)	2,346	(592)	1,754
Tax	4,6	(433)	(47)	(480)
Profit/(loss) after tax from continuing operations		1,913	(639)	1,274
Profit/(loss) after tax from discontinued operations		5	(14)	(9)
Total profit/(loss) for the year (continuing and discontinued)		1,918	(653)	1,265
Attributable to:				
Equity shareholders of the parent		1,917	(653)	1,264
Non-controlling interests from continuing operations		1	—	1
Earnings per share (pence)				
Basic earnings per share (continuing)	7			36.8
Diluted earnings per share (continuing)	7			36.6
Basic earnings per share (continuing and discontinued)	7			36.5
Diluted earnings per share (continuing and discontinued)	7			36.3

Consolidated statement of comprehensive income
for the years ended 31 March

	Notes	2021 £m	2020 £m
Profit after tax from continuing operations		**1,641**	1,274
Other comprehensive income from continuing operations			
Items from continuing operations that will never be reclassified to profit or loss:			
Remeasurement gains/(losses) on pension assets and post-retirement benefit obligations		**1,408**	(724)
Net gains/(losses) on equity instruments designated at fair value through other comprehensive income		**46**	(9)
Net (losses)/gains on financial liability designated at fair value through profit and loss attributable to changes in own credit risk		**(11)**	(3)
Net losses in respect of cash flow hedging of capital expenditure		**(14)**	(17)
Tax on items that will never be reclassified to profit or loss		**(422)**	212
Total items from continuing operations that will never be reclassified to profit or loss		**1,007**	(541)
Items from continuing operations that may be reclassified subsequently to profit or loss:			
Exchange adjustments[1]		**(1,347)**	561
Net gains/(losses) in respect of cash flow hedges		**70**	(128)
Net gains/(losses) in respect of cost of hedging		**14**	(78)
Net gains/(losses) on investment in debt instruments measured at fair value through other comprehensive income		**80**	(15)
Share of other comprehensive income/(losses) of associates, net of tax		**1**	(5)
Tax on items that may be reclassified subsequently to profit or loss		**(8)**	35
Total items from continuing operations that may be reclassified subsequently to profit or loss		**(1,190)**	370
Other comprehensive loss for the year, net of tax from continuing operations		**(183)**	(171)
Other comprehensive income for the year, net of tax from discontinued operations[2]		**—**	6
Other comprehensive loss for the year, net of tax		**(183)**	(165)
Total comprehensive income for the year from continuing operations		**1,458**	1,103
Total comprehensive loss for the year from discontinued operations		**—**	(3)
Total comprehensive income for the year		**1,458**	1,100
Attributable to:			
Equity shareholders of the parent			
From continuing operations		**1,459**	1,101
From discontinued operations		**—**	(3)
		1,459	1,098
Non-controlling interests			
From continuing operations		**(1)**	2

1. Comparative amounts have been revised as described in note 1.
2. The other comprehensive income from discontinued operations relates to the items of other comprehensive income of Cadent (investment through Quadgas HoldCo Limited).

Consolidated statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves £m	Total share-holders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2019[1]	458	1,314	21,999	(4,223)	19,548	20	19,568
Profit for the year	—	—	1,264	—	1,264	1	1,265
Other comprehensive (loss)/income for the year[1]	—	—	(509)	343	(166)	1	(165)
Total comprehensive income for the year	—	—	755	343	1,098	2	1,100
Equity dividends	—	—	(892)	—	(892)	—	(892)
Scrip dividend-related share issue[2]	12	(13)	—	—	(1)	—	(1)
Issue of treasury shares	—	—	17	—	17	—	17
Purchase of own shares	—	—	(6)	—	(6)	—	(6)
Share-based payments	—	—	19	—	19	—	19
Tax on share-based payments	—	—	3	—	3	—	3
Cash flow hedges transferred to the statement of financial position, net of tax	—	—	—	(15)	(15)	—	(15)
1 April 2020	470	1,301	21,895	(3,895)	19,771	22	19,793
Profit for the year	—	—	1,640	—	1,640	1	1,641
Other comprehensive income/(loss) for the year	—	—	1,001	(1,182)	(181)	(2)	(183)
Total comprehensive income/(loss) for the year	—	—	2,641	(1,182)	1,459	(1)	1,458
Equity dividends	—	—	(1,413)	—	(1,413)	—	(1,413)
Scrip dividend-related share issue[2]	4	(5)	—	—	(1)	—	(1)
Issue of treasury shares	—	—	17	—	17	—	17
Purchase of own shares	—	—	(2)	—	(2)	—	(2)
Share-based payments	—	—	27	—	27	—	27
Tax on share-based payments	—	—	(2)	—	(2)	—	(2)
Cash flow hedges transferred to the statement of financial position, net of tax	—	—	—	(17)	(17)	—	(17)
At 31 March 2021	**474**	**1,296**	**23,163**	**(5,094)**	**19,839**	**21**	**19,860**

1. Comparative amounts have been revised as described in note 1.
2. Included within the share premium account are costs associated with scrip dividends.

Consolidated statement of financial position
as at 31 March

	Notes	2021 £m	2020 £m
Non-current assets			
Goodwill[1]		**4,588**	5,712
Other intangible assets		**1,443**	1,295
Property, plant and equipment[1]	10	**47,043**	49,762
Other non-current assets		**293**	354
Pension assets	11	**1,747**	1,849
Financial and other investments		**755**	543
Investments in joint ventures and associates		**867**	995
Derivative financial assets		**542**	1,249
Total non-current assets		**57,278**	61,759
Current assets			
Inventories and current intangible assets		**439**	549
Trade and other receivables		**2,919**	2,986
Current tax assets		**67**	102
Financial and other investments		**2,342**	1,998
Derivative financial assets		**457**	93
Cash and cash equivalents		**157**	73
Assets held for sale	9	**3,557**	—
Total current assets		**9,938**	5,801
Total assets		**67,216**	67,560
Current liabilities			
Borrowings		**(3,737)**	(4,072)
Derivative financial liabilities		**(145)**	(380)
Trade and other payables		**(3,517)**	(3,602)
Contract liabilities		**(66)**	(76)
Current tax liabilities		**(75)**	(86)
Provisions		**(260)**	(348)
Liabilities held for sale	9	**(1,568)**	—
Total current liabilities		**(9,368)**	(8,564)
Non-current liabilities			
Borrowings		**(27,483)**	(26,722)
Derivative financial liabilities		**(754)**	(954)
Other non-current liabilities		**(843)**	(891)
Contract liabilities		**(1,094)**	(1,082)
Deferred tax liabilities[1]		**(4,815)**	(4,446)
Pensions and other post-retirement benefit obligations	11	**(1,032)**	(2,802)
Provisions		**(1,967)**	(2,306)
Total non-current liabilities		**(37,988)**	(39,203)
Total liabilities		**(47,356)**	(47,767)
Net assets		**19,860**	19,793
Equity			
Share capital		**474**	470
Share premium account		**1,296**	1,301
Retained earnings[1]		**23,163**	21,895
Other equity reserves[1]		**(5,094)**	(3,895)
Total shareholders' equity		**19,839**	19,771
Non-controlling interests		**21**	22
Total equity		**19,860**	19,793

1. Comparative amounts have been revised as described in note 1.

Consolidated cash flow statement
for the years ended 31 March

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Total operating profit from continuing operations	2(b)	**2,895**	2,780
Adjustments for:			
Exceptional items and remeasurements	4	**31**	527
Other fair value movements		**(22)**	—
Depreciation, amortisation and impairment		**1,672**	1,640
Share-based payments		**27**	19
Changes in working capital		**312**	269
Changes in provisions		**(195)**	(169)
Changes in pensions and other post-retirement benefit obligations		**(55)**	(92)
Cash flows relating to exceptional items		**(47)**	(60)
Cash generated from operations – continuing operations		**4,618**	4,914
Tax paid		**(157)**	(199)
Net cash inflow from operating activities – continuing operations		**4,461**	4,715
Net cash used in operating activities – discontinued operations		**—**	(97)
Cash flows from investing activities			
Acquisition of financial investments		**(99)**	(108)
Acquisition of National Grid Renewables (formerly Geronimo) and Emerald		**(26)**	(139)
Investments in joint ventures and associates		**(81)**	(82)
Disposal of financial investments		**66**	63
Disposal of interests in Quadgas HoldCo Limited		**—**	1,965
Purchases of intangible assets		**(426)**	(317)
Purchases of property, plant and equipment		**(4,362)**	(4,583)
Disposals of property, plant and equipment		**8**	68
Dividends received from joint ventures and associates		**80**	75
Interest received		**16**	73
Net movements in short-term financial investments		**(436)**	7
Cash inflows on derivatives		**225**	58
Cash outflows on derivatives		**(81)**	(281)
Net cash flow used in investing activities – continuing operations		**(5,116)**	(3,201)
Net cash flow used in investing activities – discontinued operations		**—**	6
Cash flows from financing activities			
Proceeds from issue of treasury shares		**16**	16
Purchase of own shares		**(2)**	(6)
Proceeds received from loans		**5,645**	4,218
Repayment of loans		**(1,663)**	(3,253)
Payments of lease liabilities		**(112)**	(121)
Net movements in short-term borrowings		**(759)**	(424)
Cash inflows on derivatives		**58**	62
Cash outflows on derivatives		**(185)**	(249)
Interest paid		**(835)**	(957)
Dividends paid to shareholders		**(1,413)**	(892)
Net cash flow from/(used in) financing activities – continuing operations		**750**	(1,606)
Net increase/(decrease) in cash and cash equivalents		**95**	(183)
Reclassification to held for sale		**(4)**	—
Exchange movements		**(7)**	4
Cash and cash equivalents at start of year		**73**	252
Cash and cash equivalents at end of year		**157**	73

Notes

1. Basis of preparation and new accounting standards, interpretations and amendments

The full year financial information contained in this announcement, which does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006, has been derived from the statutory accounts for the year ended 31 March 2021, which will be filed with the Registrar of Companies in due course. Statutory accounts for the year ended 31 March 2020 have been filed with the Registrar of Companies. The auditors' report on each of these statutory accounts was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The full year financial information has been prepared in accordance with the accounting policies applicable for the year ended 31 March 2021 which are consistent with those applied in the preparation of our Annual Report and Accounts for the year ended 31 March 2020, with the exception of any new standards or interpretations adopted during the year.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. We continue to use a columnar presentation as we consider it improves the clarity of the presentation, and assists users of the financial statements to understand the results. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group's financial performance. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors and accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and period on period.

Areas of judgement and key sources of estimation uncertainty

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- categorisation of certain items as exceptional items or remeasurements and the definition of adjusted earnings (see notes 4 and 7). In applying the Group's exceptional items framework, we have considered a number of key matters, as detailed in note 4;
- the judgement that notwithstanding legislation enacted and targets committing the UK, New York State and Massachusetts to achieving Net Zero greenhouse gas emissions by 2050, these do not trigger a reassessment of the remaining useful economic lives of our gas network assets (see estimate below); and
- following the legal separation of the Electricity System Operator on 1 April 2019, we concluded that the Electricity System Operator acts as an agent in respect of certain Transmission Network Use of Service revenues, principally those collected on behalf of the Scottish and Offshore transmission operators.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- the valuation of liabilities for pensions and other post-retirement benefits (see note 11); and
- the cash flows applied in determining the environmental provisions, in particular relating to three US Superfund sites (see note 4).

In light of the current ongoing impact of the COVID-19 pandemic, valuations of certain assets and liabilities are necessarily more subjective. The main impact at 31 March 2021 is the consideration of the recoverability of customer receivables, particularly in relation to US retail customers, in light of the suspension of debt collection activities and customer termination activities, which is an area of estimation uncertainty impacting the Group's position as at 31 March 2021.

In addition, we also highlight the estimates made regarding the useful economic lives of our gas network assets due to the length over which they are being depreciated, the potential for new and evolving technologies over that period, and the range of potential pathways for meeting Net Zero targets (see note 10 for details and sensitivity analysis).

1. Basis of preparation and new accounting standards, interpretations and amendments continued

Disposal of The Naragansett Electric Company

As described further in note 9, on 17 March 2021, the Group signed an agreement to sell 100% of the share capital of a wholly owned subsidiary, The Narragansett Electric Company (NECO). The sale is expected to complete in early 2022 once all regulatory approvals are obtained.

As the sale is considered highly probable and is expected to complete within a year, the associated assets and liabilities have been presented as held for sale in the consolidated statement of financial position. However, the transaction has not met the criteria for classification as a discontinued operation and therefore its results for the period are not separately disclosed on the face of the income statement.

Comparative period revisions

During the year, we have revised the comparative balances primarily to reflect adjustments between property, plant and equipment and goodwill related to the accounting performed for acquisitions made by our US business between 2000 and 2007. The adjustments related to the treatment of certain regulatory liabilities recognised under US GAAP on the acquisition balance sheets under UK GAAP and IFRS. This resulted in an overstatement of goodwill and an understatement of property, plant and equipment. The adjustments had a resulting impact on the deferred tax balances that were recognised at the time of the acquisitions and therefore, these have also been updated for all periods presented, also taking into account any subsequent changes in tax rates. The translation reserve on consolidation of these subsidiaries was also updated.

There have been no income statement impacts (and therefore no impact on the previously reported earnings per share) for any of the periods presented. Opening retained earnings have increased to correct the income statement impact of amortising the overstated goodwill from the period after acquisition until the adoption of IFRS in 2005 and for the impact on deferred tax of the tax rate changes noted above. Any foreign exchange impacts are recorded within the translation reserve within other equity reserves.

Below we set out the impacted line items and the adjustments to our opening statement of financial position as at 1 April 2019. In addition, we set out the adjustments to previously presented balances as at 31 March 2020 (with the only movement each period being as a result of foreign exchange movements):

	1 April 2019 £m	31 March 2020 £m
Goodwill	(497)	(521)
Property, plant and equipment	946	992
Deferred tax liability	250	262
Retained earnings	185	185
Translation reserve	14	24

1. Basis of preparation and new accounting standards, interpretations and amendments continued

New accounting standards and interpretations effective for the year ended 31 March 2021

There are no new accounting standards effective for the year ended 31 March 2021.

The UK's Financial Conduct Authority announced that the London Inter-bank Offered Rate (LIBOR) will cease to exist by the end of 2021, and will be replaced by alternative reference rates. In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Phase I of Interest Rate Benchmark Reform, which modified certain hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments were amended as a result of the change in the reference rate. The amendments were endorsed in January 2020 for adoption in the EU. The Group early-adopted these changes to IFRS 9 and IFRS 7 with effect from 1 April 2019. Phase II was issued in August 2020 and endorsed in January 2021 for adoption in the EU, resulting in amendments to IFRS 9, IFRS 7 and IFRS 16. The Group has early adopted these amendments with effect from 1 April 2020 as they enable the Company and its subsidiaries to reflect the effects of transitioning from LIBOR to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of the financial statements. There were no transition adjustments on adoption of either phase and the Group has not restated the prior period, but instead has applied the amendments prospectively.

The Group has also adopted the following amendments to standards, which have had no material impact on the Group's results or financial statement disclosure:
- Amendments to IFRS 16 'Leases – COVID-19 Related Rent Concessions';
- Amendments to IFRS 3 'Business Combinations';
- Amendments to IAS 1 and IAS 8 'Definition of Material'; and
- Amendments to the References to the Conceptual Framework.

New accounting standards not yet adopted

With effect from the period commencing 1 April 2021, the consolidated financial statements will be prepared in accordance with IAS and IFRS and related interpretations as adopted by the UK, instead of those adopted by the EU. As both sets of accounting standards are currently aligned, there will be no transitional adjustments required and comparative amounts will not be required to be restated. The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:
- IFRS 17 'Insurance Contracts';
- Amendments to IFRS 3 'Business Combinations';
- Amendments to IAS 16 'Property, Plant and Equipment';
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- Annual improvements to IFRS standards 2018-2020.

Effective dates remain subject to the EU endorsement process.

The Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

Date of approval

This announcement was approved by the Board of Directors on 19 May 2021.

2. Segmental analysis

Revenue and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of each operating segment and determining resource allocation between them. The Board is National Grid's chief operating decision maker (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4). As a matter of course, the Board also considers profitability by segment, excluding the effect of timing. However, the measure of profit disclosed in this note is operating profit before exceptional items and remeasurements as this is the measure that is most consistent with the IFRS results reported within our financial statements.

The results of our three principal businesses are reported to the Board of Directors and are treated as reportable operating segments. All other operating segments are reported to the Board of Directors on an aggregated basis. The following table describes the main activities for each reportable operating segment:

UK Electricity Transmission	The high-voltage electricity transmission networks in England and Wales and Great Britain system operator.
UK Gas Transmission	The high-pressure gas transmission networks in Great Britain and system operator in Great Britain.
US Regulated	Gas distribution networks, electricity distribution networks and high-voltage electricity transmission networks in New York and New England and electricity generation facilities in New York.

The UK Electricity Transmission segment also includes the independent Electricity System Operator (ESO). Although there is a separate governance structure (including a separate Executive Committee), the Board receives financial information on an aggregated UK Electricity Transmission basis, which includes the results of the ESO, and accordingly the ESO is included within the reportable segment.

National Grid Ventures (NGV) is our only other operating segment. It does not currently meet the thresholds set out in IFRS 8 to be identified as a separate reportable segment and therefore its results are not required to be separately presented. Instead, NGV's results are reported alongside the results of all other operating businesses on an aggregated basis as 'NGV and Other', with certain additional disclosure included in footnotes.

NGV represents our key strategic growth area outside our regulated core business in competitive markets across the US and the UK. The business comprises all commercial operations in metering, LNG at the Isle of Grain in the UK, electricity interconnectors and our investments in National Grid Renewables (formerly Geronimo) and Emerald Energy Venture LLC (Emerald).

Other activities that do not form part of any of the segments in the above table or NGV primarily relate to our UK property business together with insurance and corporate activities in the UK and US and the Group's investments in technology and innovation companies through National Grid Partners.

The segmental information is presented in relation to continuing operations only.

2. Segmental analysis continued

(a) Revenue

Revenue primarily represents the sales value derived from the generation, transmission and distribution of energy, together with the sales value derived from the provision of other services to customers. Refer to note 3 for further details.

Sales between operating segments are priced considering the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

	2021			2020		
	Total sales	**Sales between segments**	**Sales to third parties**	Total sales	Sales between segments	Sales to third parties
	£m	**£m**	**£m**	£m	£m	£m
Operating segments – continuing operations:						
UK Electricity Transmission	**3,992**	**(10)**	**3,982**	3,702	(8)	3,694
UK Gas Transmission	**904**	**(16)**	**888**	927	(16)	911
US Regulated	**9,195**	**—**	**9,195**	9,205	—	9,205
NGV and Other[1]	**715**	**(1)**	**714**	736	(6)	730
Total revenue from continuing operations	**14,806**	**(27)**	**14,779**	14,570	(30)	14,540
Split by geographical areas – continuing operations:						
UK			**5,482**			5,282
US			**9,297**			9,258
			14,779			14,540

1. Included within NGV and Other is £636 million (2020: £608 million) of revenue relating to NGV.

(b) Operating profit

A reconciliation of the operating segments' measure of profit to profit before tax from continuing operations is provided below. Further details of the exceptional items and remeasurements are provided in note 4.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Operating segments – continuing operations:				
UK Electricity Transmission	**1,034**	1,320	**1,027**	1,316
UK Gas Transmission	**342**	348	**337**	347
US Regulated	**1,313**	1,397	**1,344**	880
NGV and Other[1]	**237**	242	**187**	237
Total operating profit from continuing operations	**2,926**	3,307	**2,895**	2,780
Split by geographical area – continuing operations:				
UK	**1,612**	1,925	**1,550**	1,915
US	**1,314**	1,382	**1,345**	865
	2,926	3,307	**2,895**	2,780

1. Included within NGV and Other is £298 million (2020: £269 million) of operating profit before exceptional items and remeasurements and £296 million of operating profit after exceptional items and remeasurements (2020: £268 million), relating to NGV.

2. Segmental analysis continued

Below we reconcile total operating profit from continuing operations to profit before tax from continuing operations. Total operating exceptional items and remeasurements of £31 million charge (2020: £527 million charge) are detailed in note 4. This is comprised of a £7 million charge (2020: £4 million charge) attributable to UK Electricity Transmission; £5 million charge (2020: £1 million charge) to UK Gas Transmission; £31 million gain (2020: £517 million charge) to US Regulated; and £50 million charge (2020: £5 million charge) to NGV and Other.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Reconciliation to profit before tax:				
Operating profit from continuing operations	**2,926**	3,307	**2,895**	2,780
Finance income	**35**	70	**58**	54
Finance costs	**(977)**	(1,119)	**(928)**	(1,167)
Share of post-tax results of joint ventures and associates	**66**	88	**58**	87
Profit before tax from continuing operations	**2,050**	2,346	**2,083**	1,754

(c) Capital expenditure

Capital expenditure represents additions to property, plant and equipment and non-current intangibles but excludes additional investments in and loans to joint ventures and associates.

	Net book value of property, plant and equipment and other intangible assets		Capital expenditure		Depreciation, amortisation and impairment	
	2021	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m
Operating segments:						
UK Electricity Transmission	**14,379**	13,788	**1,072**	1,043	**(507)**	(469)
UK Gas Transmission	**4,531**	4,513	**176**	249	**(165)**	(171)
US Regulated[1]	**27,128**	30,615	**3,223**	3,228	**(888)**	(855)
NGV and Other[2]	**2,448**	2,141	**460**	559	**(112)**	(145)
Total from continuing operations[1]	**48,486**	51,057	**4,931**	5,079	**(1,672)**	(1,640)
Split by geographical area – continuing operations:						
UK	**21,352**	20,427	**1,708**	1,847	**(783)**	(784)
US[2]	**27,134**	30,630	**3,223**	3,232	**(889)**	(856)
Total from continuing operations[1]	**48,486**	51,057	**4,931**	5,079	**(1,672)**	(1,640)
Asset type:						
Property, plant and equipment[1]	**47,043**	49,762	**4,510**	4,727	**(1,476)**	(1,464)
Non-current intangible assets	**1,443**	1,295	**421**	352	**(196)**	(176)
Total from continuing operations[1]	**48,486**	51,057	**4,931**	5,079	**(1,672)**	(1,640)

1. Comparative amounts have been revised as described in note 1.
2. Included within NGV and Other are assets with a net book value of £2,396 million (2020: £2,080 million), capital expenditure of £431 million (2020: £550 million) and depreciation, amortisation and impairment of £92 million (2020: £124 million) relating to NGV.

3. Revenue

Revenue arises in the course of ordinary activities and principally comprises:
- transmission services;
- distribution services; and
- generation services.

Transmission services, distribution services and certain other services (excluding rental income but including metering) fall within the scope of IFRS 15 'Revenue from Contracts with Customers', whereas generation services (which solely relate to the contract with the Long Island Power Authority (LIPA) in the US) are accounted for under the leasing standard as rental income, also presented within revenue. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties and value added tax. The Group recognises revenue when it transfers control over a product or service to a customer.

The following is a description of principal activities, by reportable segment, from which the Group generates its revenue. For more detailed information about our segments, see note 2.

(a) UK Electricity Transmission

The UK Electricity Transmission segment principally generates revenue by providing electricity transmission services (both as transmission owner in England and Wales and independent system operator in Great Britain). Our business operates as a monopoly regulated by Ofgem, which has established price control mechanisms that set the amount of annual allowed returns our business can earn (along with the Scottish and Offshore transmission operators amongst others). The IFRS revenues we record are principally a function of volumes and price. Price is determined prior to our financial year-end with reference to the regulated allowed returns and estimated annual volumes. Where revenue received or receivable exceeds the maximum amount permitted by our regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

The System Operator also collects revenues on behalf of transmission operators, principally National Grid Electricity Transmission plc and the Scottish and Offshore transmission operators, from users who connect to or use the transmission system. In this context, there is a judgement about whether the System Operator acts as a principal or agent in respect of the transmission network revenues collected on behalf of the Scottish and Offshore transmission operators (as set out in note 1). These amounts are paid to the transmission operators before the System Operator has collected payment from the users (electricity suppliers) and therefore the System Operator does hold some exposure to credit losses with electricity suppliers. However, the System Operator must set the charges paid by electricity suppliers by reference to the price control mechanism described above. That mechanism does not grant the System Operator with discretion to deviate from that mechanism. In addition, the transmission operators own and maintain the electricity network and receive direct feedback from electricity suppliers on the quality of the network they provide. As a result, we have concluded that the System Operator acts as an agent in respect of these transmission revenues and therefore records the attributable revenue net of operating costs.

The transmission of high-voltage electricity encompasses the following principal services:
- the supply of high-voltage electricity (including both transmission and system operator charges); and
- construction work (principally for connections).

For the supply of high-voltage electricity, revenue is recognised based on capacity and volumes. Our performance obligation is satisfied over time as our customers make use of our network. We bill monthly in arrears and our payment terms are up to 60 days.

For construction work relating to connections, customers can either pay over the useful life of the connection or upfront. Revenue is recognised over time, as we provide access to our network, and where the customer pays upfront, revenues are deferred as a contract liability and released over the life of the asset.

3. Revenue (continued)

For other construction where there is no consideration for any future services, for example diversions (being the re-routing of network assets at our customers' request), revenues are recognised as the construction work is completed.

(b) UK Gas Transmission

The UK Gas Transmission segment of the Group principally generates revenue by providing gas transmission services to our customers (both as transmission owner and as system operator) in Great Britain. Similar to our UK Electricity Transmission business, our business operates as a monopoly regulated by Ofgem. The price control mechanism in place that determines our annual allowances is also similar, as is the way in which revenue is recorded.

The transmission of gas encompasses the following principal services:

- the supply of high-pressure gas (including both transmission and system operator charges); and
- construction work (principally for connections).

For the supply of high-pressure gas, revenue is recognised based on capacity and volumes. Our performance obligation is satisfied over time as our customers make use of our network, and we bill monthly in arrears with payment terms of up to 45 days.

For construction work relating to connections, customers pay for the connection upfront. Revenue is recognised over time, as we provide access to our network. As revenues are received upfront, they are deferred as a contract liability and released over the life of the connection.

For other construction where there is no consideration for any future services (such as diversions), revenues are recognised when the construction work is completed.

(c) US Regulated

The US Regulated segment of the Group principally generates revenue by providing gas and electricity distribution services in New York and New England, high voltage electricity transmission services in New York and New England, and electricity generation in New York.

Distribution services
Provision of gas and electricity distribution services in New York and New England. This comprises the following principal services:

- Gas and electricity distribution: revenue is recognised based on usage by customers (over time) and billed monthly. Payment terms are 30 days; and
- Connections: revenue is recognised over time, as we provide access to our network. Where payments are made upfront, they are deferred as contract liabilities or customer contributions (where they relate to government entities) and released over the life of the connection.

Transmission services
Provision of electricity transmission services to customers and operation of electricity transmission facilities. Our principal services are:

- Electricity transmission: revenue is recognised based on usage by customers (over time) and billed monthly. Payment terms are 30 days; and
- Connections: revenue is recognised over time, as we provide access to our network. Where payments are made upfront, they are deferred as contract liabilities or customer contributions (where they relate to government entities) and released over the life of the connection.

Electricity generation
Provision of energy services and supply capacity to produce energy for the use of customers of the Long Island Power Authority (LIPA) through a power supply agreement where LIPA receives all of the energy and capacity from the asset until at least 2025. The arrangement is treated as an operating lease within the scope of the leasing standard, where we act as lessor with rental income being recorded as other income, which forms part of total revenue. Lease payments (capacity payments) are recognised on a straight-line basis and variable lease payments are recognised as the energy is generated.

3. Revenue (continued)

(d) NGV and Other

NGV and Other generates revenue from electricity interconnectors, LNG at the Isle of Grain, National Grid Renewables, metering, our UK commercial property business, rental income and insurance.

The Group recognises revenue from transmission services through interconnectors and LNG at the Isle of Grain by means of customers' use of capacity and volumes. Revenue is recognised over time and is billed monthly. Payment terms are up to 30 days.

Other revenue in the scope of IFRS 15 principally includes revenues from our UK metering business and sales of renewables projects from National Grid Renewables to Emerald. Revenue is recognised as it is earned. In the case of the UK metering business, revenue is billed monthly and payment terms are up to 30 days.

Other revenue, recognised in accordance with standards other than IFRS 15, includes property sales by our UK commercial property business (including sales to our St William joint venture) and rental income. Property sales are recorded at a point in time (when the sale is legally completed) and rental income is recorded over time.

(e) Disaggregation of revenue

In the following tables, revenue is disaggregated by primary geographical market and major service lines. The table reconciles disaggregated revenue with the Group's reportable segments (see note 2).

Revenue for the year ended 31 March 2021	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	NGV and Other £m	Total £m
Revenue under IFRS 15					
Transmission	**1,814**	**603**	**403**	**316**	**3,136**
Distribution	**—**	**—**	**8,317**	**—**	**8,317**
System Operator	**2,076**	**240**	**—**	**—**	**2,316**
Other	**67**	**12**	**15**	**302**	**396**
Total IFRS 15 revenue	**3,957**	**855**	**8,735**	**618**	**14,165**
Other revenue					
Generation	**—**	**—**	**376**	**—**	**376**
Other	**25**	**33**	**84**	**96**	**238**
Total other revenue	**25**	**33**	**460**	**96**	**614**
Total revenue from continuing operations	**3,982**	**888**	**9,195**	**714**	**14,779**

Geographical split for the year ended 31 March 2021	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	NGV and Other £m	Total £m
Revenue under IFRS 15					
UK	**3,957**	**855**	**—**	**553**	**5,365**
US	**—**	**—**	**8,735**	**65**	**8,800**
Total IFRS 15 revenue	**3,957**	**855**	**8,735**	**618**	**14,165**
Other revenue					
UK	**25**	**33**	**—**	**59**	**117**
US	**—**	**—**	**460**	**37**	**497**
Total other revenue	**25**	**33**	**460**	**96**	**614**
Total revenue from continuing operations	**3,982**	**888**	**9,195**	**714**	**14,779**

3. Revenue (continued)

Revenue for the year ended 31 March 2020	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	NGV and Other £m	Total £m
Revenue under IFRS 15					
Transmission	1,992	649	425	309	3,375
Distribution	—	—	8,319	—	8,319
System Operator	1,610	214	—	—	1,824
Other	69	15	12	296	392
Total IFRS 15 revenue	3,671	878	8,756	605	13,910
Other revenue					
Generation	—	—	369	—	369
Other	23	33	80	125	261
Total other revenue	23	33	449	125	630
Total revenue from continuing operations	3,694	911	9,205	730	14,540

Geographical split for the year ended 31 March 2020	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	NGV and Other £m	Total £m
Revenue under IFRS 15					
UK	3,671	878	—	567	5,116
US	—	—	8,756	38	8,794
Total IFRS 15 revenue	3,671	878	8,756	605	13,910
Other revenue					
UK	23	33	—	110	166
US	—	—	449	15	464
Total other revenue	23	33	449	125	630
Total revenue from continuing operations	3,694	911	9,205	730	14,540

Contract liabilities represent revenue to be recognised in future periods relating to contributions in aid of construction of £1,160 million (2020: £1,158 million. Revenue is recognised over the life of the asset. The asset lives for connections in UK Electricity Transmission, UK Gas Transmission, NGV and US Regulated are 40 years, 36 years, 15 years and up to 51 years respectively. The weighted average amortisation period is 19 years.

Future revenues in relation to unfulfilled performance obligations not yet received in cash amount to £4.8 billion (2020: £3.1 billion). £1.6 billion (2020: £1.5 billion) relates to connection contracts in UK Electricity Transmission which will be recognised as revenue over 26 years and £3.0 billion (2020: £1.5 billion) relates to revenues to be earned under Grain LNG contracts until 2045. The remaining amount will be recognised as revenue over 9 years.

The amount of revenue recognised for the year ended 31 March 2021 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion, is £nil (2020: £nil).

4. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'adjusted profit'. Adjusted profit (which excludes exceptional items and remeasurements as defined below) is used by management to monitor financial performance as it is considered that it aids the comparability of our reported financial performance from year to year. We exclude items from adjusted profit because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from adjusted profit.

	2021 £m	2020 £m
Included within operating profit		
Exceptional items:		
Changes in environmental provisions	**14**	(402)
New operating model implementation costs	**(55)**	—
Transaction costs	**(24)**	—
	(65)	(402)
Remeasurements – commodity contract derivatives	**34**	(125)
	(31)	(527)
Included within finance income and costs		
Remeasurements:		
Net (losses)/gains on financing derivatives	**(41)**	1
Net gains/(losses) on financial assets at fair value through profit and loss	**23**	(16)
Net gains/(losses) on financial liabilities at fair value through profit and loss	**90**	(49)
	72	(64)
Included within share of post-tax results of joint ventures and associates		
Remeasurements – net losses on financial instruments	**(8)**	(1)
Total included within profit before tax	**33**	(592)
Included within tax		
Exceptional items – movements arising on items not included in profit before tax:		
Deferred tax charge arising on the reversal of the reduction in UK corporation tax rate	**—**	(192)
Tax on exceptional items	**8**	103
Tax on remeasurements	**(34)**	42
	(26)	(47)
Total exceptional items and remeasurements after tax	**7**	(639)
Analysis of total exceptional items and remeasurements after tax		
Exceptional items after tax	**(57)**	(491)
Remeasurements after tax	**64**	(148)
Total exceptional items and remeasurements after tax	**7**	(639)

Exceptional items
Management uses an exceptional items framework that has been discussed and approved by the Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, the precedent for similar items, the number of periods over which costs will be spread or gains earned, and the commercial context for the particular transaction.

4. Exceptional items and remeasurements continued

Items of income or expense that are considered by management for designation as exceptional items include significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity, and the related tax, as well as deferred tax arising on changes to corporation tax rates.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the consolidated income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Set out below are details of the transactions against which we have considered the application of our exceptional items framework in each of the years for which results are presented.

2021

We have considered certain costs incurred in the period against our Exceptional Items Framework, and concluded £55 million of costs associated with the implementation of our new operating model, the £14 million release of environmental provisions for which the original provision was treated as exceptional and the £24 million of transaction costs associated with the acquisition of Western Power Distribution (WPD) and the sale of NECO should be treated as exceptional items in the current year.

New operating model implementation costs: The Group incurred £55 million of costs in relation to the design and implementation of our new operating model that is built on a foundation of six business units as described further in the Strategic Review. The costs recognised in the year ended 31 March 2021 primarily relate to professional fees incurred in designing the new operating model, alongside the redundancy provisions accrued in relation to those employees where announcements have been made that they will be leaving the organisation as a result of the changes. Whilst the costs incurred this year do not meet the quantitative threshold to be classified as exceptional on a standalone basis, we have concluded that the costs should be classified as exceptional in line with our exceptional items policy, in order to ensure that the costs are treated in a consistent manner with similar costs incurred previously. The total cash outflow for the year was £33 million.

Transaction costs: £24 million of transaction costs were incurred to date in relation to the acquisition of WPD and the sale of NECO (see note 9). The costs relate to legal fees, bankers fees and professional fees. Whilst the costs incurred in the current year in isolation are not sufficiently material to warrant classification as an exceptional item, we are expecting further costs to be incurred next year, for example, in regards to success fees on completion of the acquisition. When taken in aggregate, the costs incurred over both years will be sufficiently material to be classified as exceptional in line with our policy. The total cash outflow for the year was £14 million.

Changes in environmental provision: In the US, the most significant component of our £1.5 billion environmental provision relates to several Superfund sites, and arose from former manufacturing gas plant facilities, formerly owned or operated by the Group or its predecessor companies. The sites are subject to both State and Federal law in the US. Under Federal and State Superfund laws, potential liability for the historical contamination may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred. The provisions and the Group's share of estimated costs are re-evaluated at each reporting period.

We have recognised an exceptional gain of £14 million relating to the release of environmental provisions relating to one of our US Superfund sites, for which the original provision was treated as an exceptional item. The reduction in the provision arose as a result of the re-evaluation of the Group's share of estimated costs following the finalisation of discussions on the scope of certain remediation work with government authorities. The release has been recorded as an exceptional item in line with the treatment of the original provision.

4. Exceptional items and remeasurements continued

2020

We concluded that the increase in costs associated with the changes in our environmental provisions (£402 million) and the additional deferred tax charge reflecting the impact of the remeasurement of the Group's deferred tax liabilities as a result of a change in the substantively enacted UK corporation tax rate (£192 million) meet the criteria to be classified as exceptional.

A further £10 million of COVID-19 related costs incurred in the year ended 31 March 2020 were similarly not classified as exceptional in view of the quantum involved and all costs associated with the settlement reached with the State of New York in respect of the Downstate New York Gas Moratorium were also treated as part of adjusted profit.

Changes in environmental provisions: As a result of notices issued by governmental authorities and newly developed cost estimates prepared by third-party engineers in relation to our US Superfund sites, we re-evaluated our estimates of total costs and cost sharing allocations borne by the Company, and accordingly increased our provision by £326 million. Under the terms of our rate plans, we are entitled to recovery of environmental clean-up costs from rate payers, but under IFRS no asset can be recognised for this recovery.

Also included in the total environmental charge was the £76 million impact of the change in the real discount rate applied to the environmental provisions across the Group, of which £66 million related to the US and £10 million to the UK. Given the substantial and sustained change in gilts and corporate bond yields, we concluded it was appropriate to reduce the real discount rate from 1% to 0.5%. The weighted average remaining duration of our cash flows is now around 10 years.

4. Exceptional items and remeasurements continued

Remeasurements

Remeasurements comprise unrealised gains or losses recorded in the consolidated income statement arising from changes in the fair value of certain of our financial assets and liabilities accounted for at fair value through profit and loss (FVTPL). Once the fair value movements are realised (for example, when the derivative matures), the previously recognised fair value movements are then reversed through remeasurements and recognised within earnings before exceptional items and remeasurements. These assets and liabilities include commodity contract derivatives and financing derivatives to the extent that hedge accounting is not available or is not fully effective.

The unrealised gains or losses reported in profit and loss on certain additional assets and liabilities treated at FVTPL are also classified within remeasurements. These relate to financial assets (which fail the 'solely payments of principal and interest test' under IFRS 9), the money market fund investments used by Group Treasury for cash management purposes and certain financial liabilities which we elected to designate at FVTPL. In all cases, these fair values increase or decrease because of changes in foreign exchange, commodity or other financial indices over which we have no control.

We report unrealised gains or losses relating to certain discrete classes of financial assets accounted for at FVTPL within adjusted profit. These comprise our portfolio of investments made by National Grid Partners, our investment in Sunrun Neptune 2016 LLC and the contingent consideration arising on the acquisition of National Grid Renewables (all within NGV and Other). The performance of these assets (including changes in fair value) are included in our assessment of adjusted profit for the relevant business units.

Remeasurements excluded from adjusted profit are made up of the following categories:

i. Net gains/(losses) on commodity contract derivatives represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred;

ii. Net gains/(losses) on financing derivatives comprise gains and losses arising on derivative financial instruments used for the risk management of interest rate and foreign exchange exposures. These exclude gains and losses for which hedge accounting has been effective, and have been recognised directly in the consolidated statement of other comprehensive income or are offset by adjustments to the carrying value of debt;

iii. Net gains/(losses) on financial assets measured at FVTPL comprise gains and losses on the investment funds held by our insurance captives which are categorised as FVTPL;

iv. Net gains/(losses) on financial liabilities measured at FVTPL comprises the change in the fair value (excluding changes due to own credit risk) of a financial liability that was designated at FVTPL on transition to IFRS 9 to reduce a measurement mismatch; and

v. Unrealised net gains/(losses) on derivatives and other financial instruments within our joint ventures and associates.

Items included within tax

2020

The Finance Act 2016, which was enacted on 15 September 2016, reduced the main UK corporation tax rate to 17% with effect from 1 April 2020. Deferred tax balances were calculated at this rate for the years ended 31 March 2017 to 2019. On 17 March 2020, the UK Government utilised the Provisional Collection of Taxes Act 1968 to substantively enact a reversal of the reduction in the main UK corporation tax rate to 17% with effect from 1 April 2020, resulting in the rate remaining at 19%. Deferred taxes at 31 March 2020 were measured using enacted tax rates and reflected in these financial statements, resulting in a £192 million deferred tax charge, principally due to the remeasurement of deferred tax liabilities. The treatment of this charge as exceptional was consistent with the treatment for the year ended 31 March 2017 when the original reduction in the tax rate was substantively enacted, resulting in the recognition of an exceptional tax credit of £94 million.

5. Finance income and costs

	2021 £m	2020 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**33**	48
Dividends received on equities held at fair value through other comprehensive income (FVOCI)	**2**	2
Other income	**—**	20
	35	70
Finance costs		
Net interest on pensions and other post-retirement benefit obligations	**(38)**	(23)
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(72)**	(73)
Other borrowings[1]	**(854)**	(997)
Interest expense on financial liabilities held at fair value through profit and loss (FVTPL)	**(20)**	(22)
Interest on derivatives	**7**	(39)
Unwinding of discount on provisions	**(78)**	(77)
Other interest	**(53)**	(10)
Less: interest capitalised[2]	**131**	122
	(977)	(1,119)
Remeasurements – Finance income		
Net gains/(losses) on FVTPL financial assets	**23**	(16)
	23	(16)
Remeasurements – Finance costs		
Net gains/(losses) on FVTPL financial liabilities	**90**	(49)
Net gains/(losses) on financing derivatives[3]:		
Derivatives designated as hedges for hedge accounting	**44**	(13)
Derivatives not designated as hedges for hedge accounting	**(85)**	14
	49	(48)
Total remeasurements – Finance income and costs	**72**	(64)
Finance income	**58**	54
Finance costs	**(928)**	(1,167)
Net finance costs from continuing operations	**(870)**	(1,113)

1. Includes interest expense on lease liabilities (see note 10 for details).
2. Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.1% (2020: 3.6%). In the UK, capitalised interest qualifies for a current year tax deduction with tax relief claimed of £13 million (2020: £15 million). In the US, capitalised interest is added to the cost of plant and qualifies for tax depreciation allowances.
3. Includes a net foreign exchange gain on borrowing activities of £172 million (2020: £66 million gain) offset by foreign exchange losses and gains on financing derivatives measured at fair value.

6. Tax

Tax charged/(credited) to the consolidated income statement – continuing operations

	2021 £m	2020 £m
Tax before exceptional items and remeasurements	**416**	433
Exceptional tax on items not included in profit before tax (see note 4)	**—**	192
Tax on other exceptional items and remeasurements	**26**	(145)
Total tax reported within exceptional items and remeasurements	**26**	47
Total tax charge from continuing operations	**442**	480

Tax as a percentage of profit before tax

	2021 %	2020 %
Before exceptional items and remeasurements – continuing operations	**20.3**	18.5
After exceptional items and remeasurements – continuing operations	**21.2**	27.4

	2021 £m	2020 £m
Current tax:		
UK corporation tax at 19% (2020: 19%)	**213**	179
UK corporation tax adjustment in respect of prior years	**23**	(4)
	236	175
Overseas corporation tax	**3**	(2)
Overseas corporation tax adjustment in respect of prior years	**(15)**	(41)
	(12)	(43)
Total current tax from continuing operations	**224**	132
Deferred tax:		
UK deferred tax	**63**	269
UK deferred tax adjustment in respect of prior years	**(26)**	6
	37	275
Overseas deferred tax	**174**	64
Overseas deferred tax adjustment in respect of prior years	**7**	9
	181	73
Total deferred tax from continuing operations	**218**	348
Total tax charge from continuing operations	**442**	480

6. **Tax** continued

Factors that may affect future tax charges

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. Since this had not been substantively enacted at the balance sheet date, deferred tax balances as at 31 March 2021 have been calculated at the current main UK corporation tax rate of 19%.

We expect our future deferred tax liabilities to increase reflecting the impact of the rate change. If the amended tax rate of 25% had been used, the deferred tax liability would have been approximately £560 million higher.

US government and US states are also considering changes to federal and state tax rates respectively, but as no changes have been substantively enacted at the balance sheet date deferred tax balances as at 31 March 2021 have been calculated at the prevailing tax rates.

We will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal aid investigations. At this time, we do not expect this to have any material impact on our future tax charges. Governments across the world including the UK and the US have introduced various stimulus/reliefs for businesses to cope with the impact of the COVID-19 pandemic, from which we do not currently expect there to be a material impact on our future tax charges.

7. Earnings per share

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the adjusted profit sub-totals used by the Company. For further details of exceptional items and remeasurements, see note 4. We have included reconciliations from this additional EPS measure to earnings for both basic and diluted EPS to provide additional detail for these items. The EPS calculations are based on profit after tax attributable to equity shareholders of the parent company which excludes non-controlling interests.

(a) Basic earnings per share

	Earnings 2021 £m	**EPS 2021 pence**	Earnings 2020 £m	EPS 2020 pence
Adjusted earnings from continuing operations	**1,633**	**46.4**	1,912	55.2
Exceptional items and remeasurements after tax from continuing operations	**7**	**0.2**	(639)	(18.4)
Earnings from continuing operations	**1,640**	**46.6**	1,273	36.8
Adjusted earnings from discontinued operations	**—**	**—**	5	0.2
Exceptional items and remeasurements after tax from discontinued operations	**—**	**—**	(14)	(0.5)
Earnings from discontinued operations	**—**	**—**	(9)	(0.3)
Total adjusted earnings	**1,633**	**46.4**	1,917	55.4
Total exceptional items and remeasurements after tax (including discontinued operations)	**7**	**0.2**	(653)	(18.9)
Total earnings	**1,640**	**46.6**	1,264	36.5

	2021 millions	2020 millions
Weighted average number of ordinary shares – basic	3,523	3,461

(b) Diluted earnings per share

	Earnings 2021 £m	**EPS 2021 pence**	Earnings 2020 £m	EPS 2020 pence
Adjusted earnings from continuing operations	**1,633**	**46.1**	1,912	55.0
Exceptional items and remeasurements after tax from continuing operations	**7**	**0.2**	(639)	(18.4)
Earnings from continuing operations	**1,640**	**46.3**	1,273	36.6
Adjusted earnings from discontinued operations	**—**	**—**	5	0.1
Exceptional items and remeasurements after tax from discontinued operations	**—**	**—**	(14)	(0.4)
Earnings from discontinued operations	**—**	**—**	(9)	(0.3)
Total adjusted earnings	**1,633**	**46.1**	1,917	55.1
Total exceptional items and remeasurements after tax (including discontinued operations)	**7**	**0.2**	(653)	(18.8)
Total earnings	**1,640**	**46.3**	1,264	36.3

	2021 millions	2020 millions
Weighted average number of ordinary shares – diluted	**3,540**	3,478

8. Dividends

	2021			2020		
	Pence per share	**Cash dividend paid £m**	**Scrip dividend £m**	Pence per share	Cash dividend paid £m	Scrip dividend £m
Interim dividend in respect of the current year	**17.00**	**348**	**249**	16.57	335	241
Final dividend in respect of the prior year	**32.00**	**1,065**	**54**	31.26	557	517
	49.00	**1,413**	**303**	47.83	892	758

The Directors are proposing a final dividend for the year ended 31 March 2021 of 32.16p per share that will absorb approximately £1,141 million of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 18 August 2021 to shareholders who are on the register of members at 4 June 2021 (subject to shareholders' approval at the AGM). A scrip dividend will be offered as an alternative.

9. Assets held for sale

The Narragansett Electric Company
On 17 March 2021, the Group signed an agreement to sell 100% of the share capital of a wholly owned subsidiary, The Narragansett Electric Company (NECO). NECO is part of our US Regulated segment and is a retail distribution company providing electricity and gas to customers in Rhode Island. The expected sale proceeds are £2.8 billion ($3.8 billion), and the sale is expected to complete in March 2022 once all regulatory approvals are obtained.

As the sale is considered highly probable and is expected to complete within a year, the associated assets and liabilities have been presented as held for sale in the consolidated statement of financial position. However, as NECO does not represent a separate major line of business or geographical operations, it has not met the criteria for classification as a discontinued operation and therefore its results for the period are not separately disclosed on the face of the income statement.

The following assets and liabilities of NECO were classified as held for sale at 31 March 2021:

	2021 £m
Goodwill	**562**
Intangible assets	**3**
Property, plant and equipment	**2,713**
Trade and other receivables	**237**
Cash and cash equivalents	**4**
Other assets	**38**
Total assets held for sale	**3,557**
Borrowings	**(1,123)**
Pension liabilities	**(49)**
Other liabilities	**(396)**
Total liabilities held for sale	**(1,568)**
Net assets held for sale	**1,989**

No impairment losses were recognised upon remeasurement of the assets and liabilities prior to classification as held for sale. NECO generated profit after tax of £104 million (2020: £31 million) for the year ended 31 March 2021. Current and deferred tax balances relating to NECO have not been included as held for sale on the basis that those balances will be retained by National Grid rather than transferring with the other assets and liabilities of NECO.

The Group also announced its intention to sell a majority stake in the UK Gas Transmission business. However, as the process is still at an early stage and is not expected to be marketed until later in the year, the business has not been classified as held for sale and has not met the criteria for classification as a discontinued operation as at 31 March 2021.

10. Property plant and equipment

The analysis of property plant and equipment as at 31 March 2021 is as follows:

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2020	3,897	59,609	4,771	1,036	69,313
Exchange adjustments	(213)	(3,308)	(130)	(73)	(3,724)
Additions	89	328	4,023	70	4,510
Disposals	(6)	(344)	(26)	(48)	(424)
Reclassifications[2]	96	3,007	(3,243)	77	(63)
Reclassification to held for sale (note 9)	(111)	(3,231)	(174)	(44)	(3,560)
Cost at 31 March 2021	3,752	56,061	5,221	1,018	66,052
Accumulated depreciation at 1 April 2020	(847)	(18,042)	—	(662)	(19,551)
Exchange adjustments	37	698	—	46	781
Depreciation charge for the year	(90)	(1,270)	—	(116)	(1,476)
Disposals	—	339	—	48	387
Reclassifications[2]	2	(5)	—	6	3
Reclassification to held for sale (note 9)	22	798	—	27	847
Accumulated depreciation at 31 March 2021	(876)	(17,482)	—	(651)	(19,009)
Net book value at 31 March 2021	**2,876**	**38,579**	**5,221**	**367**	**47,043**

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
1 April 2019 (as previously reported)[1]	3,338	53,829	5,049	930	63,146
Right-of-use assets recognised on transition to IFRS 16[3]	381	67	—	20	468
Cost at 1 April 2019 (as restated)	3,719	53,896	5,049	950	63,614
Exchange adjustments[1]	98	1,484	83	33	1,698
Additions	130	464	4,029	104	4,727
Disposals	(79)	(486)	(9)	(65)	(639)
Reclassifications[2,4]	29	4,251	(4,381)	14	(87)
Accumulated depreciation at 1 April 2019[1]	(778)	(16,918)	—	(591)	(18,287)
Exchange adjustments[1]	(16)	(329)	—	(20)	(365)
Depreciation charge for the year	(92)	(1,252)	—	(120)	(1,464)
Disposals	36	464	—	58	558
Reclassifications[2]	3	(7)	—	11	7
Accumulated depreciation at 31 March 2020	(847)	(18,042)	—	(662)	(19,551)
Net book value at 31 March 2020	**3,050**	**41,567**	**4,771**	**374**	**49,762**

1. Comparative amounts have been revised as described in note 1.
2. Represents amounts transferred between categories, (to)/from other intangible assets, reclassifications from inventories and reclassifications between cost and accumulated depreciation.
3. £468 million of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019.
4. In 2020, comprised an £87 million reduction in the gross cost of assets in the course of construction in our UK Electricity Transmission business for costs previously capitalised and accrued as due to a supplier, that were subsequently no longer payable.

10. Property plant and equipment continued

Gas asset lives:

The role that gas networks play in the pathway to achieving the greenhouse gas emissions reductions targets set in the jurisdictions in which we operate is currently uncertain. However, we believe the gas assets which we own and operate today will continue to have a crucial role in maintaining security, reliability and affordability of energy beyond 2050, although the scale and purpose for which the networks will be used is dependent on technological developments and policy choices of governments and regulators.

- In the UK, the useful economic life of gas mains, services and regulating assets relating to the National Transmission System (NTS) are frequently reviewed throughout the year and subject to a detailed review at the year end. The most material components of these are our pipeline assets, which are due to be fully depreciated by 2070, with other assets being depreciated over various periods between now and then. Those reviews considered a number of scenarios, which consider the implications of the UK's Net Zero by 2050 legislation for the NTS. Our most recent review concluded that the most likely outcome was for the NTS network assets to remain in use beyond 2050, including in those scenarios where the greenhouse gas emissions of gas networks were largely eliminated.
- With respect to our US gas distribution assets, asset lives are assessed as part of detailed depreciation studies completed as part of each separate rate proceeding. Depreciation studies consider the physical condition of assets and the expected operational life of an asset. We believe these assessments are our best estimate of the UEL of our gas network assets in the US.

  The weighted average remaining UEL for our US gas distribution fixed asset base is circa 50 years, however a sizeable proportion of our assets are assumed to have UELs which extend beyond 2080. We continue to believe the lives identified by rate proceedings are the best estimate of the assets' UELs, although we continue to keep this assumption under review as we learn more about possible future pathways towards Net Zero. Whilst the targets, goals and ambitions have now been formalised in legislation in the states in which we operate, there is widespread recognition that work needs to be done to define the possible future decarbonisation pathways. We continue to actively engage and support our regulators to enable the clean energy transition in a safe, reliable and affordable way.

  Asset depreciation lives feed directly into our US regulatory recovery mechanisms, such that any shortening of asset lives and regulatory recovery periods as agreed with regulators should be recoverable through future rates, subject to agreement, over future periods, as part of wider considerations around ensuring the continuing affordability of gas in our service territories.

Given the uncertainty described relating to the UELs of our gas assets, below we provide a sensitivity on the depreciation charge for our UK and US regulated segments were a shorter UEL presumed:

	Increase in depreciation expense for the year ended 31 March 2021		Increase in depreciation expense for the year ended 31 March 2020	
	UK regulated £m	**US regulated £m**	UK regulated £m	US regulated £m
UELs limited to 2050	**35**	**160**	37	151
UELs limited to 2060	**12**	**70**	13	66
UELs limited to 2070	**1**	**28**	—	26

Note that this sensitivity calculation excludes any assumptions regarding the residual value for our asset base and the effect shortening asset depreciation lives would be expected to have on our regulatory recovery mechanisms.

11. Pensions and other post-retirement benefit obligations

	2021 £m	2020 £m
Present value of funded obligations	**(23,283)**	(24,281)
Fair value of plan assets	**24,388**	23,748
	1,105	(533)
Present value of unfunded obligations	**(324)**	(345)
Other post-employment liabilities	**(66)**	(75)
Net defined benefit asset/(liability)	**715**	(953)
Represented by:		
Liabilities	**(1,032)**	(2,802)
Assets	**1,747**	1,849
	715	(953)

The net pensions and other post-retirement benefit obligations position, as recorded under IAS 19, at 31 March 2021 was an asset of £715 million compared to a liability of £953 million at 31 March 2020. The movement of £1,668 million primarily reflects asset performance being significantly more than the discount rate (including the UK pensions buy-ins detailed below), despite a partial offset due to changes in UK and US financial assumptions resulting in an increase in liabilities.

Actuarial Assumptions:

	UK pensions	
	2021 %	2020 %
Discount rate – past service	**2.00**	2.35
Discount rate – future service	**2.15**	2.35
Salary increases	**3.40**	2.90
Rate of increase in RPI – past service	**3.15**	2.65
Rate of increase in RPI – future service	**3.00**	2.45

	US pensions	
	2021 %	2020 %
Discount rate	**3.25**	3.30
Salary increases	**4.30**	3.50

	US other post-retirement benefits	
	2021 %	2020 %
Discount rate	**3.25**	3.30
Salary increases	**4.30**	3.50
Initial healthcare cost trend rate	**7.10**	7.00
Ultimate healthcare cost trend rate	**4.50**	4.50

11. Pensions and other post-retirement benefit obligations continued

Pensions buy-ins:

In December 2020, the Trustees of the NGUKPS exchanged £0.8 billion of gilts from Section A for a buy-in transaction with Rothesay. This follows two similar arrangements entered into in the previous year. In Section A, £2.8 billion of gilts were exchanged for a buy-in policy with Rothesay, and in Section B, £1.6 billion of gilts were exchanged for a buy-in policy with Legal & General.

These policies provide bulk annuities in respect of some pensioner and dependant members of NGUKPS and were funded by existing assets. All policies are held by the Trustee. For each transaction, the pricing of the policies was highly competitive; however, under IAS 19 the methodology for calculating the value of the buy-ins (as an asset held by the pension plan) differs from the price paid. This resulted in the recognition of actuarial losses on purchase of £0.1 billion (2020: £0.7 billion), recorded within the consolidated statement of other comprehensive income.

12. Net debt

Net debt is comprised as follows:

	2021	2020
	£m	£m
Cash and cash equivalents	**157**	73
Current financial investments	**2,342**	1,998
Borrowings[1]	**(31,220)**	(30,794)
Financing derivatives[2]	**175**	133
	(28,546)	(28,590)

1. The borrowings balance includes £685 million (2020: £735 million) of lease liabilities under IFRS 16.
2. The derivatives balance included in net debt excludes the commodity derivative liabilities of £75 million (2020: assets of £125 million).

13. Reconciliation of net cash flow to movement in net debt

	2021 £m	2020 £m
Increase/(decrease) in cash and cash equivalents	**95**	(183)
Increase/(decrease) in financial investments[1]	**429**	(42)
(Increase)/decrease in borrowings	**(2,336)**	450
Increase in related derivatives[2]	**4**	450
Change in debt resulting from cash flows	**(1,808)**	675
Changes in fair value of financial assets and liabilities and exchange movements	**1,801**	(1,081)
Net interest charge on the components of net debt	**(932)**	(1,097)
Other non-cash movements	**(136)**	(84)
Movement in net debt (net of related derivative financial instruments) in the year	**(1,075)**	(1,587)
Net debt (net of related derivative financial instruments) at start of year	**(28,590)**	(26,529)
Reclassification to held for sale	**1,119**	—
Impact of transition to new accounting standards (2020: IFRS 16)	**—**	(474)
Net debt (net of related derivative financial instruments) at end of year	**(28,546)**	(28,590)

1. Cash flows on current financial investments are comprised of £7 million (2020: £35 million) of interest received and £436 million of cash inflows (2020: £7 million outflows) of net cash flow movements in short-term financial investments, as presented in the consolidated cash flow statement.
2. The derivatives balance included in net debt excludes the commodity derivative assets of £75 million (2020: assets of £125 million).

	2021		2020	
	Borrowings and other £m	Financing derivatives £m	Borrowings and other £m	Financing derivatives £m
Cash flows per financing activities section of cash flow statement:				
Proceeds received from loans	**5,645**	**—**	4,218	—
Repayment of loans	**(1,663)**	**—**	(3,253)	—
Payments of lease liabilities	**(112)**	**—**	(121)	—
Net movements in short-term borrowings	**(759)**	**—**	(424)	—
Cash inflows on derivatives	**—**	**58**	—	62
Cash outflows on derivatives	**—**	**(185)**	—	(249)
Interest paid	**(804)**	**(31)**	(904)	(53)
Cash flows per financing activities section of cash flow statement	**2,307**	**(158)**	(484)	(240)
Adjustments:				
Non-net debt-related items	**29**	**—**	34	—
Derivative cash inflow in relation to capital expenditure	**—**	**10**	—	13
Derivative cash inflows per investing section of cash flow statement	**—**	**225**	—	58
Derivative cash outflows per investing section of cash flow statement	**—**	**(81)**	—	(281)
Cash flows relating to financing liabilities within net debt	**2,336**	**(4)**	(450)	(450)
Analysis of changes in net debt:				
Borrowings	**2,336**	**—**	(450)	—
Financing derivatives	**—**	**(4)**	—	(450)
Cash flow movements relating to financing liabilities within net debt	**2,336**	**(4)**	(450)	(450)

14. Acquisitions

Acquisition of PPL Western Power Distribution Investments Limited

On 17 March 2021, National Grid plc entered into an agreement to acquire 100% of the share capital of PPL WPD Investments Limited (WPD), the holding company of Western Power Distribution plc, which is the UK's largest electricity distribution network operator. The total consideration for the transaction is £7.8 billion. The transaction is expected to complete in July 2021.

Alternative performance measures/non-IFRS reconciliations

Within the Annual Report, a number of financial measures are presented. These measures have been categorised as alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines and the Securities and Exchange Commission (SEC) conditions for use of non-GAAP financial measures.

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these measures to provide a better understanding of its underlying performance. APMs are reconciled to the most directly comparable IFRS financial measure where practicable.

The Group has defined the following financial measures as APMs derived from IFRS: net revenue, the various adjusted operating profit, earnings and earnings per share metrics detailed in the 'adjusted profit measures' section below, net debt, capital investment, funds from operations (FFO), FFO interest cover and retained cash flow (RCF)/adjusted net debt. For each of these we present a reconciliation to the most directly comparable IFRS measure.

We also have a number of APMs derived from regulatory measures which have no basis under IFRS; we call these Regulatory Performance Measures (RPMs). They comprise: Group Return on Equity (RoE), UK and US regulatory RoE, regulated asset base, regulated financial performance, regulatory gearing, asset growth, Value Added, including Value Added per share and Value Growth. These measures include the inputs used by utility regulators to set the allowed revenues for many of our businesses.

We use RPMs to monitor progress against our regulatory agreements and certain aspects of our strategic objectives. Further, targets for certain of these performance measures are included in the Company's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP) and contribute to how we reward our employees. As such, we believe that they provide close correlation to the economic value we generate for our shareholders and are therefore important supplemental measures for our shareholders to understand the performance of the business and to ensure a complete understanding of Group performance.

As the starting point for our RPMs is not IFRS, and these measures are not governed by IFRS, we are unable to provide meaningful reconciliations to any directly comparable IFRS measures, as differences between IFRS and the regulatory recognition rules applied have built up over many years. Instead, for each of these we present an explanation of how the measure has been determined and why it is important, and an overview as to why it would not be meaningful to provide a reconciliation to IFRS.

Alternative performance measures

Net revenue
Net revenue is revenue less pass-through costs, such as UK system balancing costs, gas and electricity commodity costs in the US and, prior to the adoption of IFRS 15, payments to other UK network owners. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Where revenue received or receivable exceeds the maximum amount permitted by our regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised, as such an adjustment to future prices relates to the provision of future services. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

	2021			2020		
Year ended 31 March	**Gross revenue £m**	**Pass-through costs £m**	**Net revenue £m**	Gross revenue £m	Pass-through costs £m	Net revenue £m
UK Electricity Transmission	**3,992**	**(2,062)**	**1,930**	3,702	(1,528)	2,174
UK Gas Transmission	**904**	**(233)**	**671**	927	(242)	685
US Regulated	**9,195**	**(3,253)**	**5,942**	9,205	(3,460)	5,745
NGV and Other	**715**	**—**	**715**	736	—	736
Sales between segments	**(27)**	**—**	**(27)**	(30)	—	(30)
Total	**14,779**	**(5,548)**	**9,231**	14,540	(5,230)	9,310

Adjusted profit measures

In considering the financial performance of our business and segments, we use various adjusted profit measures in order to aid comparability of results year-on-year.

The various measures are presented on pages 17 – 23 and reconciled below.

Adjusted results, also referred to as Headline results: These exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that is used to derive part of the incentive target set annually for remunerating certain Executive Directors, and further details of these items are included in Note 4.

Underlying results: Further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2020/21, as highlighted below, our underlying results exclude £207 million (2019/20: £147 million) of timing differences as well as £150 million (2019/20: £nil) of major storm costs (as costs were above our $100 million storm cost timing threshold in the current year). We expect to recover major storm costs incurred through regulatory mechanisms in the US.

Constant currency: 'Constant Currency Basis' refers to the reporting of the actual results against the results for the same period last year which, in respect of any US dollar currency denominated activity, have been translated using the average US dollar exchange rate for the year ended 31 March 2021, which was $1.34 to £1.00. The average rate for the year ended 31 March 2020, was $1.29 to £1.00. Assets and liabilities as at 31 March 2021 have been retranslated at the closing rate at 31 March 2021 of $1.38 to £1.00. The closing rate for the reporting date 31 March 2020 was $1.24 to £1.00.

Reconciliation of statutory, adjusted and underlying profits and earnings – at actual exchange rates – continuing operations

Year ended 31 March 2021	Statutory	Exceptionals and remeasurements	Adjusted	Timing	Major storm costs	Underlying
	£m	£m	**£m**	£m	£m	**£m**
UK Electricity Transmission	**1,027**	7	**1,034**	88	—	**1,122**
UK Gas Transmission	**337**	5	**342**	96	—	**438**
US Regulated	**1,344**	(31)	**1,313**	23	150	**1,486**
NGV and Other	**187**	50	**237**	—	—	**237**
Total operating profit	**2,895**	31	**2,926**	207	150	**3,283**
Net finance costs	**(870)**	(72)	**(942)**	—	—	**(942)**
Share of post-tax results of joint ventures and associates	**58**	8	**66**	—	—	**66**
Profit before tax	**2,083**	(33)	**2,050**	207	150	**2,407**
Tax	**(442)**	26	**(416)**	(41)	(39)	**(496)**
Profit after tax	**1,641**	(7)	**1,634**	166	111	**1,911**

Year ended 31 March 2020	Statutory	Exceptionals and remeasurements	Adjusted	Timing	Major storm costs	Underlying
	£m	£m	**£m**	£m	£m	**£m**
UK Electricity Transmission	**1,316**	4	**1,320**	(146)	—	**1,174**
UK Gas Transmission	**347**	1	**348**	54	—	**402**
US Regulated	**880**	517	**1,397**	239	—	**1,636**
NGV and Other	**237**	5	**242**	—	—	**242**
Total operating profit	**2,780**	527	**3,307**	147	—	**3,454**
Net finance costs	**(1,113)**	64	**(1,049)**	—	—	**(1,049)**
Share of post-tax results of joint ventures and associates	**87**	1	**88**	—	—	**88**
Profit before tax	**1,754**	592	**2,346**	147	—	**2,493**
Tax	**(480)**	47	**(433)**	(45)	—	**(478)**
Profit after tax	**1,274**	639	**1,913**	102	—	**2,015**

Reconciliation of adjusted and underlying profits – at constant currency

		At constant currency				
Year ended 31 March 2020	**Adjusted at actual exchange rate**	Constant currency adjustment	**Adjusted**	Timing	Major storm costs	**Underlying**
	£m	£m	**£m**	£m	£m	**£m**
UK Electricity Transmission	**1,320**	—	**1,320**	(146)	—	**1,174**
UK Gas Transmission	**348**	—	**348**	54	—	**402**
US Regulated	**1,397**	(56)	**1,341**	229	—	**1,570**
NGV and Other	**242**	1	**243**	—	—	**243**
Total operating profit	**3,307**	(55)	**3,252**	137	—	**3,389**
Net finance costs	**(1,049)**	30	**(1,019)**	—	—	**(1,019)**
Share of post-tax results of joint ventures and associates	**88**	(1)	**87**	—	—	**87**
Profit before tax	**2,346**	(26)	**2,320**	137	—	**2,457**

Earnings per share calculations from continuing operations – At actual exchange rates

The table below reconciles the profit before tax from continuing operations as per the previous tables back to the earnings per share from continuing operations for each of the adjusted profit measures. Earnings per share is only presented for those adjusted profit measures that are at actual exchange rates, and not for those at constant currency.

Year ended 31 March 2021	**Profit after tax £m**	**Non-controlling interest £m**	**Profit after tax attributable to the parent £m**	**Weighted average number of shares Millions**	**Earnings per share pence**
Statutory	**1,641**	**(1)**	**1,640**	**3,523**	**46.6**
Adjusted (also referred to as Headline)	**1,634**	**(1)**	**1,633**	**3,523**	**46.4**
Underlying	**1,911**	**(1)**	**1,910**	**3,523**	**54.2**

Year ended 31 March 2020	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to the parent £m	Weighted average number of shares Millions	Earnings per share pence
Statutory	1,274	(1)	1,273	3,461	36.8
Adjusted (also referred to as Headline)	1,913	(1)	1,912	3,461	55.2
Underlying	2,015	(1)	2,014	3,461	58.2

Timing impacts

Under the Group's regulatory frameworks, the majority of the revenues that National Grid is allowed to collect each year are governed by a regulatory price control or rate plan. If we collect more than the allowed revenue, adjustments will be made to future prices to reflect this over-recovery, and if we collect less than the allowed level of revenue, adjustments will be made to future prices to reflect the under-recovery. A number of costs in the UK and the US are pass-through costs (including commodity and energy efficiency costs in the US) and are fully recoverable from customers. Timing differences between costs of this type being incurred and their recovery through revenues are also included in over and under-recoveries. In the UK, timing differences include an estimation of the difference between revenues earned under revenue incentive mechanisms and associated revenues collected. UK timing balances and movements exclude adjustments associated with changes to controllable cost (totex) allowances or adjustments under the totex incentive mechanism. Opening balances of over and under-recoveries have been restated where appropriate to correspond with regulatory filings and calculations.

	UK Electricity Transmission £m	**UK Gas Transmission £m**	**US Regulated £m**	**Total £m**
1 April 2020 opening balance[1]	**18**	**16**	**227**	**261**
Over/(under) recovery	**(88)**	**(96)**	**(23)**	**(207)**
31 March 2021 closing balance to (recover)/return[2]	**(70)**	**(80)**	**204**	**54**

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2019 opening balance[1]	(127)	59	452	384
Over/(under) recovery	146	(54)	(229)	(137)
31 March 2020 closing balance to (recover)/return[2]	19	5	223	247

1. Opening balances have been restated to reflect the finalisation of calculated over/(under)-recoveries in the UK and the US.
2. The over-recovered closing balance at 31 March 2021 was £48 million (translated at the closing rate of $1.38:£1). 31 March 2020 was £264 million (translated at the closing rate of $1.24:£1).

Capital investment

'Capital investment' or 'investment' refer to additions to property, plant and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Homes LLP joint venture during the period. We also include the Group's investments by National Grid Partners during the period, which are classified for IFRS purposes as non-current financial assets in the Group's consolidated statement of financial position.

Investments made to our St William Homes LLP arrangement are excluded based on the nature of this joint venture arrangement. We typically contribute property assets to the joint venture in exchange for cash and accordingly do not consider these transactions to be in the nature of capital investment.

	At actual exchange rates			**At constant currency**		
Year ended 31 March	**2021 £m**	2020 £m	% change	**2021 £m**	2020 £m	% change
UK Electricity Transmission	**1,072**	1,043	3	**1,072**	1,043	3
UK Gas Transmission	**176**	249	(29)	**176**	249	(29)
US Regulated	**3,223**	3,228	—	**3,223**	3,098	4
NGV and Other	**460**	559	(18)	**460**	559	(18)
Group capital expenditure	**4,931**	5,079	(3)	**4,931**	4,949	—
Equity investment, funding contributions and loans to joint ventures and associates[1]	**78**	56	39	**78**	54	44
Acquisition of National Grid Renewables (formerly Geronimo) and Emerald	**—**	209	n/a	**—**	195	n/a
Increase in financial assets (National Grid Partners)	**38**	61	(38)	**38**	59	(36)
Group capital investment	**5,047**	5,405	(7)	**5,047**	5,257	(4)

1. Excludes £nil (2020: £15 million) equity contribution to the St William Homes LLP joint venture.

Net debt

See notes 12 and 13 for reconciliation of net debt.

Funds from operations and interest cover

FFO is the cash flows generated by the operations of the Group. Credit rating metrics, including FFO, are used as indicators of balance sheet strength.

Year ended 31 March	2021 £m	2020 £m
Interest expense (income statement)	**977**	1,119
Hybrid interest reclassified as dividend	**(38)**	(39)
Capitalised interest	**131**	122
Pensions interest adjustment	**(16)**	16
Interest on lease rentals adjustment	**—**	—
Unwinding of discount on provisions	**(78)**	(77)
Adjusted interest expense	**976**	1,141
Net cash inflow from operating activities	**4,461**	4,715
Interest received on financial instruments	**16**	73
Interest paid on financial instruments	**(835)**	(957)
Dividends received	**80**	75
Working capital adjustment	**(312)**	(269)
Excess employer pension contributions	**116**	176
Hybrid interest reclassified as dividend	**38**	39
Difference in net interest expense in income statement to cash flow	**(138)**	(187)
Difference in current tax in income statement to cash flow	**(67)**	67
Current tax related to prior periods	**8**	(45)
Cash flow from discontinued operations	**—**	(97)
Other fair value adjustments	**22**	—
Funds from operations (FFO)	**3,389**	3,590
FFO interest cover ((FFO + adjusted interest expense)/adjusted interest expense)	**4.5 x**	4.1 x

1. Numbers for 2020 reflect the calculations for the total Group as based on the published accounts for that year.

Retained cash flow/adjusted net debt

RCF/adjusted net debt is one of two credit metrics that we monitor in order to ensure the Group is generating sufficient cash to service its debts, consistent with maintaining a strong investment-grade credit rating. We calculated RCF/adjusted net debt applying the methodology used by Moody's, as this is one of the most constrained calculations of credit worthiness. The net debt denominator includes adjustments to take account of the equity component of hybrid debt.

Year ended 31 March	**2021 £m**	2020 £m
Funds from operations (FFO)	**3,389**	3,590
Hybrid interest reclassified as dividend	**(38)**	(39)
Ordinary dividends paid to shareholders	**(1,413)**	(892)
RCF (net of share buybacks)	**1,938**	2,659
Borrowings[1]	**32,339**	30,794
Less:		
50% hybrid debt	**(1,032)**	(1,054)
Cash and cash equivalents	**(157)**	(73)
Financial and other investments	**(1,768)**	(1,278)
Underfunded pension obligations	**467**	1,442
Derivative balances removed from debt[2]	**—**	(116)
Currency swaps[2]	**—**	203
Nuclear decommissioning liabilities reclassified as debt[2]	**—**	6
Collateral – cash received under collateral agreements	**(582)**	(785)
Accrued interest removed from short-term debt[2]	**—**	(246)
Adjusted net debt (includes pension deficit)	**29,267**	28,893
RCF (net of share buybacks)/adjusted net debt	**6.6 %**	**9.2 %**

1. Before NECO reclassification.
2. Below agency threshold, prior year not restated.

Regulatory Performance Measures

Regulated financial performance

Regulatory financial performance is a pre-interest and tax measure, starting at segmental operating profit and making adjustments (such as the elimination of all pass-through items included in revenue allowances and timing) to approximate regulatory profit for the UK regulated activities. This measure provides a bridge for investors between a well-understood and comparable IFRS starting point and through the key adjustments required to approximate regulatory profit. This measure also provides the foundation to calculate Group RoE.

For the reasons noted above, the table below shows the principal differences between the IFRS operating profit and the regulated financial performance, but is not a formal reconciliation to an equivalent IFRS measure.

UK Electricity Transmission

Year ended 31 March	**2021 £m**	2020 £m
Adjusted operating profit	**1,034**	1,320
Movement in regulatory 'IOUs'	**188**	(99)
Deferred taxation adjustment	**60**	63
RAV indexation (average 3% long-run inflation)	**424**	406
Regulatory vs IFRS depreciation difference	**(439)**	(459)
Fast money/other	**28**	26
Pensions	**(54)**	(52)
Performance RAV created	**111**	119
Regulated financial performance	**1,352**	1,324

UK Gas Transmission

Year ended 31 March	2021 £m	2020 £m
Adjusted operating profit	**342**	348
Movement in regulatory 'IOUs'	**34**	67
Deferred taxation adjustment	**12**	25
RAV indexation (average 3% long-run inflation)	**189**	185
Regulatory vs IFRS depreciation difference	**(88)**	(77)
Fast money/other	**25**	(17)
Pensions	**(34)**	(34)
Performance RAV created	**(23)**	(24)
Regulated financial performance	**457**	473

US Regulated

Year ended 31 March	2021 £m	2020 £m
Adjusted operating profit	**1,313**	1,397
Provision for bad and doubtful debts (COVID-19), net of recoveries[1]	**120**	117
Major storm costs	**150**	—
Timing	**23**	239
US GAAP pension adjustment	**3**	(4)
Regulated financial performance	**1,609**	1,749

1. US Regulated financial performance includes an adjustment reflecting our expectation for future recovery of COVID-19 related bad and doubtful debt expense.

Total regulated financial performance

Year ended 31 March	2021 £m	2020 £m
UK Electricity Transmission	**1,352**	1,324
UK Gas Transmission	**457**	473
US Regulated	**1,609**	1,749
Total regulated financial performance	**3,418**	3,546

US timing, major storms and movement in UK regulatory 'IOUs' – Revenue related to performance in one year may be recovered in later years. Where revenue received or receivable exceeds the maximum amount permitted by our regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised under IFRS, as such an adjustment to future prices relates to the provision of future services. Similarly, no asset is recognised under IFRS where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, this is calculated as the movement in other regulated assets and liabilities.

Performance RAV – UK performance efficiencies are in-part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements. This is calculated as in-year totex outperformance multiplied by the appropriate regulatory capitalisation ratio and multiplied by the retained company incentive sharing ratio.

Pension adjustment – Cash payments against pension deficits in the UK are recoverable under regulatory contracts. In US Regulated operations, US GAAP pension charges are generally recoverable through rates. Revenue recoveries are recognised under IFRS but payments are not charged against IFRS operating profits in the year. In the UK, this is calculated as cash payments against the regulatory proportion of pension deficits in the UK regulated business, whereas in the US, it is the difference between IFRS and US GAAP pension charges.

3% RAV indexation – Future UK revenues are expected to be set using an asset base adjusted for inflation. This is calculated as UK RAV multiplied by 3% (long-run RPI inflation assumption).

UK deferred taxation adjustment – Future UK revenues are expected to recover cash taxation cost including the unwinding of deferred taxation balances created in the current year. This is the difference between: (a) IFRS underlying EBITDA less other regulatory adjustments; and (b) IFRS underlying EBITDA less other regulatory adjustments less current taxation (adjusted for interest tax shield) then grossed up at full UK statutory tax rate.

Regulatory depreciation – US and UK regulated revenues include allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment – The regulatory remuneration of costs incurred is split between in-year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles. This is calculated as the difference between IFRS classification of costs as operating costs or fixed asset additions and the regulatory classification.

Regulated asset base

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. By investing efficiently in our networks, we add to our regulated asset base over the long term, and this in turn contributes to delivering shareholder value. Our regulated asset base is comprised of our regulatory asset value in the UK, plus our rate base in the US.

Maintaining efficient investment in our regulated asset base ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% growth in regulated asset base each year through continued investment in our networks in both the UK and US.

In the UK, the way in which our transactions impact RAV is driven by principles set out by Ofgem. In a number of key areas these principles differ from the requirements of IFRS, including areas such as additions and the basis for depreciation. Further, our UK RAV is adjusted annually for inflation. RAV in each of our retained UK businesses has evolved over the period since privatisation in 1990, and as a result, historical differences between the initial determination of RAV and balances reported under UK GAAP at that time still persist. Due to the above, substantial differences exist in the measurement bases between RAV and an IFRS balance metric, and therefore, it is not possible to provide a meaningful reconciliation between the two.

In the US, rate base is a regulatory measure determined for each of our main US operating companies. It represents the value of property and other assets or liabilities on which we are permitted to earn a rate of return, as set out by the regulatory authorities for each jurisdiction. The calculations are based on the applicable regulatory agreements for each jurisdiction and include the allowable elements of assets and liabilities from our US companies. For this reason, it is not practical to provide a meaningful reconciliation from the US rate base to an equivalent IFRS measure. However, we include the calculation below.

‘Total Regulated and other balances’ includes the under or over-recovery of revenues that National Grid’s UK regulated businesses target to collect in any year, which are based on the regulator’s forecasts for that year. Under the UK price control arrangements, revenues will be adjusted in future years to take account of actual levels of collected revenue, costs and outputs delivered when they differ from those regulatory forecasts. In the US, other regulatory assets and liabilities include regulatory assets and liabilities which are not included in the definition of rate base, including working capital where appropriate.

The investment in ‘NGV and other businesses’ includes net assets excluding pensions, tax and items related to the UK Gas Distribution sale.

As at 31 March (£m at constant currency)	RAV, rate base or other business balances		Total Regulated and other balances	
	2021	2020[1]	**2021[2,3]**	2020[1,2,3]
UK Electricity Transmission	**14,565**	14,133	**14,379**	13,772
UK Gas Transmission	**6,307**	6,298	**6,333**	6,291
US Regulated	**20,041**	18,598	**22,015**	20,211
Total regulated	**40,913**	39,029	**42,727**	40,274
NGV and other businesses	**4,458**	3,942	**4,122**	3,428
Total Group regulated and other balances	**45,371**	42,971	**46,849**	43,702

1. Figures relating to prior periods have, where appropriate been represented at constant currency, for opening balance adjustments following the completion of the regulatory reporting pack process in 2020, and reclassifications between US rate base and US other balances.
2. Includes totex-related regulatory IOUs of £310 million (2020: £411 million), over-recovered timing balances of £150 million (2020: £24 million under-recovered) and under-recovered legacy balances related to previous price controls of £nil (2020: £78 million).
3. Includes assets for construction work-in-progress of £1,639 million (2020: £1,510 million), other regulatory assets related to timing and other cost deferrals of £806 million (2020: £642 million) and net working capital liabilities of £471 million (2020: £361 million).

US rate base and other total regulated and other balances for 31 March 2020 have been restated in the table above at constant currency. At actual currency the values were £20.6 billion and £25.5 billion respectively.

Asset growth
Asset growth is the annual percentage increase in our RAV and rate base and other business balances (including the assets of National Grid Ventures and National Grid Partners) calculated at constant currency.

Group return on equity (RoE)
Group RoE provides investors with a view of the performance of the Group as a whole compared with the amounts invested by the Group in assets attributable to equity shareholders. It is the ratio of our regulatory financial performance to our measure of equity investment in assets. It therefore reflects the regulated activities as well as the contribution from our non-regulated businesses together with joint ventures and non-controlling interests.

We use Group RoE to measure our performance in generating value for our shareholders, and targets for Group RoE are included in the incentive mechanisms for executive remuneration within both the APP and LTPP schemes.

Group RoE is underpinned by our regulated asset base. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical. However, we do include the calculations below.

Calculation: Regulatory financial performance including a long-run assumption of 3% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets:

- adjusted interest removes interest on pensions, capitalised interest in regulated operations and unwind of discount rate on provisions;
- adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest; and
- equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of National Grid Ventures and Other activities and our share of joint ventures and associates, minus opening net debt as reported under IFRS restated to the weighted average £/$ exchange rate for the year.

Years ended 31 March	2021 £m	2020 £m
Regulated financial performance	**3,418**	3,546
Operating profit of other activities	**264**	269
Group financial performance	**3,682**	3,815
Share of post-tax results of joint ventures and associates	**66**	88
Non-controlling interests	**(1)**	(1)
Adjusted Group interest charge	**(882)**	(1,069)
Group tax charge	**(416)**	(433)
Tax on adjustments	**(175)**	(117)
Group financial performance after interest and tax	**2,274**	2,283
Opening rate base/RAV	**39,552**	37,459
Opening other balances	**3,984**	3,304
Opening goodwill	**5,295**	5,435
Opening capital employed	**48,831**	46,198
Opening net debt	**(27,398)**	(27,194)
Opening equity	**21,433**	19,004
Return on Equity	**10.6 %**	12.0 %

1. Group ROE in 2020 has been recalculated to reflect the revision to decrease the comparative goodwill balances (see note 1 for details).

UK and US regulated RoE

Years ended 31 March %	Regulatory Debt:Equity assumption	Achieved Return on Equity 2020 %	Achieved Return on Equity 2019 %	Base or Allowed Return on Equity 2020 %	Base or Allowed Return on Equity 2019 %
UK Electricity Transmission	**60/40**	**13.9**	13.5	**10.2**	10.2
UK Gas Transmission	**62.5/37.5**	**9.6**	9.8	**10.0**	10.0
US Regulated	**Avg. 50/50**	**7.2**	9.3	**9.4**	9.4

UK regulated RoE
UK regulated RoEs are a measure of how the businesses are performing against the assumptions used by our UK regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator, and that RPI inflation is equal to a long-run assumption of 3%. They are calculated by dividing elements of out/under-performance versus the regulatory contract (i.e., regulated financial performance disclosed above) by the average equity RAV in line with the regulatory assumed capital structure and adding to the base allowed RoE.

This is an important measure of UK regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing under the RIIO framework and also helps investors to compare our performance with similarly regulated UK entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The UK RoE is underpinned by the UK RAV. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical.

US regulated RoE
US regulated RoE is a measure of how a business is performing against the assumptions used by the US regulators. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure and allowed cost of debt. The returns are divided by the average rate base (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory adjudicated capital structure.

This is an important measure of our US regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing and also helps investors compare our performance with similarly regulated US entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The US return is based on a calculation which gives proportionately more weighting to those jurisdictions which have a greater rate base. For the reasons noted above, no reconciliation to IFRS for the RoE measure has been presented, as we do not believe it would be practical to reconcile our IFRS balance sheet to the equity base.

The table below shows the principal differences between the IFRS result of the US Regulated segment, and the 'return' used to derive the US RoE. In outlining these differences, we also include the result for the US regulated Operating Companies (OpCo) entities aggregated under US GAAP.

In respect of 2019/20, this measure is the aggregate operating profit of our US OpCo entities' publicly available financial statements prepared under US GAAP. For 2020/21, this measure represents our current estimate, since local financial statements have yet to be prepared.

	2021 £m	2020 £m
Underlying IFRS operating profit for US regulated segment	**1,486**	1,636
Weighted average £/$ exchange rate	**1.341**	1.287

	2021 $m	2020 $m
Underlying IFRS operating profit for US regulated segment	**1,993**	2,105
Adjustments to convert to US GAAP as applied in our US OpCo entities		
Adjustment in respect of customer contributions	**(59)**	(50)
Pension accounting differences[1]	**—**	(13)
Environmental charges recorded under US GAAP	**(108)**	(94)
Storm costs and recoveries recorded under US GAAP	**(113)**	(9)
Other regulatory deferrals, amortisation and other items	**100**	3
Results for US regulated OpCo entities, aggregated under US GAAP[2]	**1,813**	1,942
Adjustments to determine regulatory operating profit used in US RoE		
Levelisation revenue adjustment	**—**	(122)
Adjustment for COVID-19-related provision for bad and doubtful debts[3]	**127**	150
Net other	**(32)**	51
Regulatory operating profit	**1,908**	2,021
Pensions[1]	**(46)**	19
Regulatory interest charge	**(539)**	(491)
Regulatory tax charge	**(348)**	(408)
Regulatory earnings used to determine US RoE	**975**	1,141

1. Following a change in US GAAP accounting rules, an element of the pensions charge is reported outside operating profit with effect from 2019.
2. Based on US GAAP accounting policies as applied by our US regulated OpCo entities.
3. US RoE includes an adjustment reflecting our expectation for future recovery of COVID-19-related bad and doubtful debt costs.

	2021 $m	2020 $m
US equity base (average for the year)	**13,621**	12,331
US RoE	**7.2 %**	9.3 %

Totex

Under the UK RIIO regulatory arrangements the Company is incentivised to deliver efficiencies against cost targets set by the regulator. In total, these targets are set in terms of a regulatory definition of combined total operating and capital expenditure, also termed 'Totex'. The definition of Totex differs from the total combined regulated controllable operating costs and regulated capital expenditure as reported in this statement according to IFRS accounting principles. Key differences are capitalised interest, capital contributions, exceptional costs, costs covered by other regulatory arrangements and unregulated costs.

Value Added and Value Added per Share and Value Growth
Value Added is a measure that reflects the value to shareholders of our cash dividend and the growth in National Grid's regulated and non-regulated assets (as measured in our regulated asset base, for regulated entities), and corresponding growth in net debt. It is a key metric used to measure our performance and underpins our approach to sustainable decision-making and long-term management incentive arrangements.

Value Added is derived using our regulated asset base and, as such, it is not practical to provide a meaningful reconciliation from this measure to an equivalent IFRS measure due to the reasons set out for our regulated asset base. However, the calculation is set out in the Growth and Value Added section on page 12.

Value added per share is calculated by dividing value added by the weighted average number of shares (3,523 million) set out in note 7.

Value Growth of 9.4% (2019/20: 10.7%) is derived from Value Added by adjusting Value Added to normalise for a 3% long-run RPI inflation rate. In 2020/21, the numerator for Value Growth was £1,995 million (2019/20: £2,068 million). The denominator is Group equity as used in the Group RoE calculation, adjusted for foreign exchange movements. Value Growth in 2020 has been recalculated from the previously reported 10.4% to reflect the revision to decrease the comparative goodwill balance (see note 1 for details).

Asset growth
Asset growth is the annual percentage increase in our RAV and rate base and other business balances (including the assets of NGV and NGP) calculated at constant currency.

Regulatory gearing
Regulatory gearing is a measure of how much of our investment in RAV and rate base and other elements of our invested capital (including our investments in NGV, UK property and other assets and US other assets) is funded through debt. Comparative amounts as at 31 March 2020 are presented at historical exchange rates and have not been restated for opening balance adjustments.

As at 31 March	**2021 £m**	2020 £m	
UK RAV	**20,872**	20,431	
US rate base	**20,041**	20,644	
	40,913	41,075	
Other invested capital included in gearing calculation	**4,458**	4,105	
Total assets included in gearing calculation	**45,371**	45,180	
Net debt (including 100% of hybrid debt)	**(29,665)**	(28,590)	change
Group gearing (based on 100% of net debt)	**65 %**	63 %	2 %
Group gearing (excluding 50% of hybrid debt from net debt)	**63 %**	61 %	2 %

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Full Year Results 2020/21

London, 20 May 2021



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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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 as well as increased economic uncertainty following the COVID-19 pandemic; 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; 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 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 acquisition 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 227 to 230 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 2020 published on 12 November 2020. 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.

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Highlights

John Pettigrew
Chief Executive



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Financial performance highlights

Solid delivery in 2021

Underlying operating profit

£3,283m ⬇3%

FY20: **£3,389m**

Underlying EPS

54.2p ⬇7%

FY20: **58.2p**

Return on Equity

10.6% ⬇140bps

FY20: **12.0%**

Capital investment

£5,047m ⬇4%

FY20: **£5,257m**

Asset growth

5.6% ⬇340bps

FY20: **9.0%**

Dividend growth in line with policy

49.16p ⬆1.2%

FY20: **48.57p**

Underlying results from continuing operations excluding exceptional items, remeasurements, major storm costs (when greater than $100m) and timing
Capital investment includes investment in JVs (excluding equity contributions to St William property JV in FY20)
Operating profit and capital investment calculated at constant currency

Safety and reliability

Safety

- Reduction in lost time injury frequency rates
- UK best ever year of safety performance
- NG Ventures small rise in minor incidents

Reliability

- Excellent reliability across UK regulated networks
- ESO adapted to meet resilience challenges from low demand and high renewables generation
- Highest gas demand in a decade managed without incident or disruption
- Excellent US reliability, despite significant increase in storms



US

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Progress on operational priorities

Underlying operational delivery

- Achieved ROE 7.2%
- ROE 8.6% adjusting for impact of COVID, non-deferrable storm costs and impact of rate case delays
  - 92% of allowed return
- Investment increased to $4.3bn
  - 350 miles gas pipeline replacement
  - Over half way through 20,000 mile replacement programme

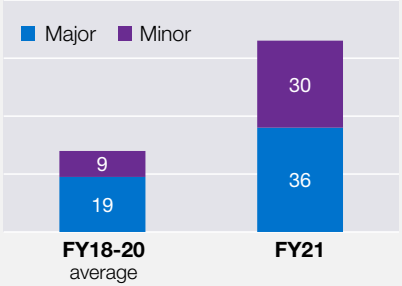
Regulatory progress

- KEDNY / KEDLI joint proposal reached
- Niagara Mohawk rate filing outcome expected in summer
- Filed for new rates in Massachusetts Gas
- Selected as partner for Northern New York Priority Transmission Project

Working to minimise storm impacts

- Upgrading infrastructure
- New technology improving resilience
- Cost recovery mechanisms and incentives for future rate cases

Number of Storms



UK

nationalgrid

Progress on operational priorities

Successful end to RIIO-1

- >£12.5bn invested over 8 years[1]
- 12.6% achieved ROE
  - Within target range of 200-300bp outperformance
- Invested £1.2bn in FY21
  - Hinkley-Seabank connection
  - London Power Tunnels 2

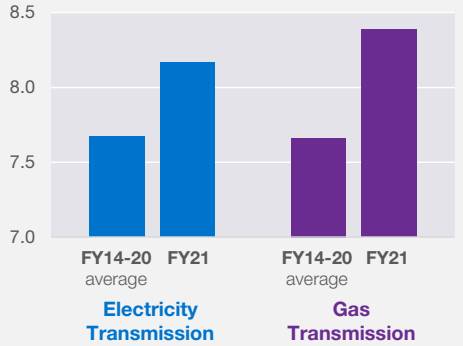
Delivering innovative solutions

- Smart Wires supporting renewable generation connections
- FutureGrid project to test repurposing gas transmission network for hydrogen

RIIO-T2 broad acceptance of final determination

- CMA appeal on cost of equity and outperformance wedge

Highest customer satisfaction scores in T1



over **£850m**
in savings for customers over RIIO-1[1]

1 Electricity transmission, gas transmission and gas distribution up until point of sale.

NGV & Other businesses

Progress on operational priorities

Interconnector progress

- IFA2 commissioned
- North Sea Link & Viking Link on track

Multi-purpose interconnectors

- Collaboration with Elia and TenneT

Growth in US onshore renewables

- >400MW operational
- 600MW under construction

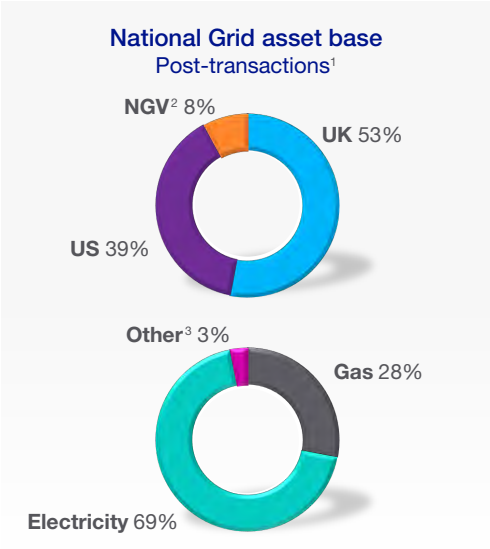
Other

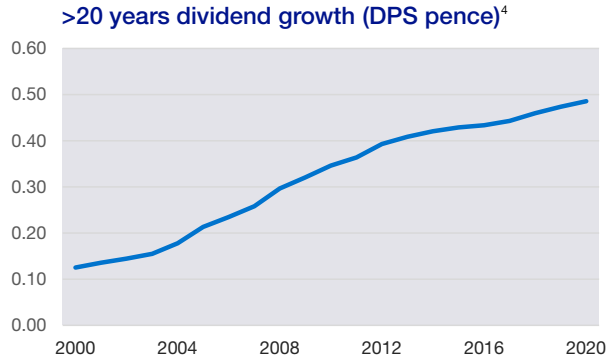
- Lower profitability from fewer land development sales



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The right portfolio





+10%
Annualised total shareholder return over past 10 years

1 Calculated as proportion of FY20 asset base post completion of acquisition of Western Power Distribution, and sale of Rhode Island business and majority stake in UK Gas Transmission
2 National Grid Ventures and Other
3 Includes US Service Co, NG Partners, Property and UK Other Assets (Corporate).
4 2000-2010 DPS adjusted for 2010 Rights Issue, excludes special dividends

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New 5 year outlook



1 Compound annual growth rate FY21-26

Outlook assumes purchase of Western Power Distribution; sale of Rhode Island business and majority stake in UK Gas Transmission; 2% p.a. inflation rate; GBP/USD FX rate of 1.3; and scrip uptake of 25%

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Financial Performance

Andy Agg
Chief Financial Officer



COVID update

- Continuing to deliver the service customers expect
- £355m adverse impact compared to guidance of £400m
  - Now recognised recoverability of £59m bad debt costs
- Net impact of £296m on operating profit
  - £120m residual bad debts
  - £78m revenue shortfall
  - £28m net direct costs
  - £70m delay in new rates for KEDNY and KEDLI
- Cash impact of £600m
- Expect to recover majority of costs over time



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Financial performance highlights

Underlying operating profit
£3,283m ⬇3%
FY20: **£3,389m**

Underlying EPS
54.2p ⬇7%
FY20: **58.2p**

Return on Equity
10.6% ⬇140bps
FY20: **12.0%**

Capital investment
£5,047m ⬇4%
FY20: **£5,257m**

Asset growth
5.6% ⬇340bps
FY20: **9.0%**

Dividend growth in line with policy
49.16p ⬆1.2%
FY20: **48.57p**

Underlying results from continuing operations excluding exceptional items, remeasurements, major storm costs (when greater than $100m) and timing
Capital investment includes investment in JVs (excluding equity contributions to St William property JV in FY20).
Operating profit and capital investment presented at constant currency

UK

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UK Electricity Transmission

Return on equity

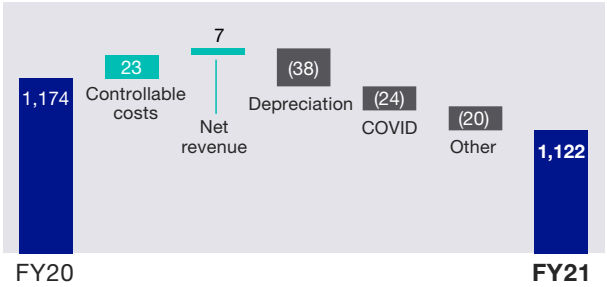
240bps
Totex incentive

30bps
Other incentives

100bps
Additional allowances

Achieved return on equity
13.9%

Underlying operating profit (£m)



Capital investment
£1,072m
FY20: **£1,043m**

Regulated asset value
£14.6bn
FY20: **£14.1bn**

- Exceeded £100m efficiency savings target
- Capital investment higher than FY20
- RAV growth of 3.1%

Underlying results, excluding timing, exceptional items and remeasurements.

UK

UK Gas Transmission

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Return on equity

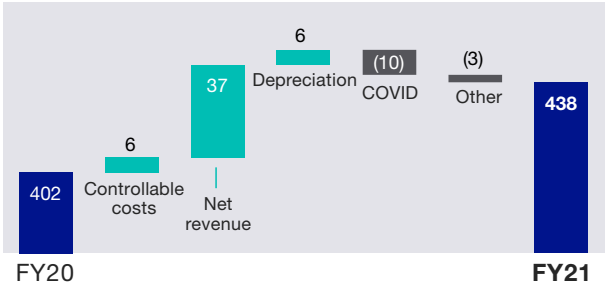
(90)bps
Totex incentive

90bps
Other incentives

(40)bps
Additional allowances

Achieved return on equity
9.6%

Underlying operating profit (£m)



Capital investment
£176m
FY20: **£249m**

Regulated asset value
£6.3bn
FY20: **£6.3bn**

- Higher revenues and further efficiency savings
- Lower capex reflecting several large projects reaching completion

Underlying results, excluding timing, exceptional items and remeasurements.

US

US Regulated

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FY21

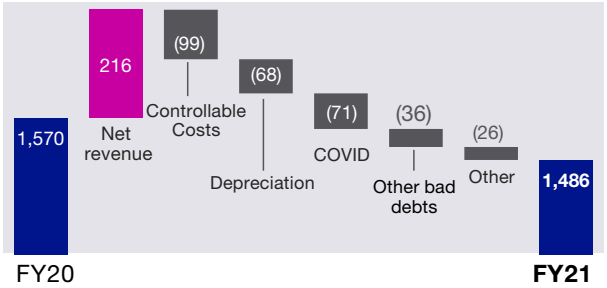
Return on equity excluding COVID, non-deferrable storm costs and impact of rate case delays

8.6%

Achieved return on equity

7.2%

Underlying operating profit (£m)



- Higher net revenues from new rate cases
- Higher controllable costs
- Higher depreciation
- COVID impact

Capital investment
$4.3bn
FY20: **$4.2bn**

Rate base
$27.6bn
FY20: **$25.6bn**

Assets outside rate base
$3.2bn
FY20: **$2.7bn**

Underlying results from continuing operations excluding exceptional items, remeasurements, major storm costs (when greater than $100m) and timing
Operating profit and capital investment presented at constant currency

NGV

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NG Ventures

Operating profit (£m)	Year ended 31 March 2021	31 March 2020
Metering	154	158
Grain LNG	104	78
Interconnectors	60	61
Other	(20)	(28)
	298	**269**

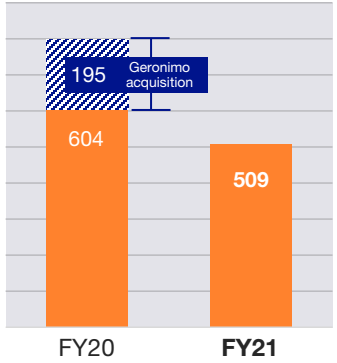
Post tax share of JVs (£m)		
Interconnectors[1]	26	29
Millennium	22	22
Other	8	16
	56	**67**

Total NGV	**354**	**336**

1 Includes BritNed and Nemo.

Operating profit, share of joint venture profit after tax and investment presented at constant exchange rates.
Underlying results, excluding timing, exceptional items and remeasurements.

Capital investment (£m)



- Lower investment as interconnector projects near completion

Other

Other activities

Operating profit (£m)	Year ended 31 March 2021	31 March 2020
Property	22	63
Corporate & other	(83)	(90)
	(61)	**(27)**

Post tax share of JVs (£m)		
St William	5	18
Other	5	3
	10	**21**

- Operating profit lower, reflecting fewer property sales
- Total capex includes NG Partners, property and corporate

Capital investment[1]

£67m

FY20: **£70m**

- NG Partners investment of £38m

Operating profit, share of joint venture profit after tax and investment presented at actual exchange rates.
Underlying results, excluding timing, exceptional items and remeasurements.
1 Capital investment includes investment in JVs (excluding equity contributions to St William property JV) and investment in NG Partners.

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Interest, tax and earnings

Finance costs

£942m

8% lower than FY20[3]

- Lower RPI and borrowing rates
- Effective interest rate of 3.2%

Underlying effective tax rate[1]

21.2%

Underlying tax charge**: £(496)m**

- 130 bps higher than prior year
- Smaller impact from tax credits relating to prior years

Underlying earnings[2]

£1,910m

FY20: **£2,014m**

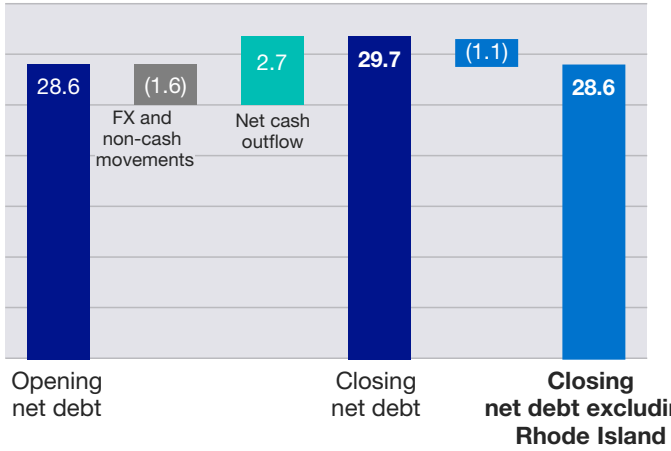
- 3,523m weighted average shares
- 54.2p/share

1 Excluding joint ventures and associates.
2 Underlying results attributable to equity shareholders.
3 At constant currency
Underlying results, excluding timing, exceptional items and remeasurements.

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Cash flow and net debt

Net debt (£bn)



- £4.6bn operating cash flow
  - Increased storm costs, lower US collections and reduced UK revenues
- Raised over £5.6bn of senior debt during the year
- COVID impact on FY21 rating metrics
- Comfortably positioned within rating band going forward

RCF / Net debt
6.6%

FFO / Net debt
11.7%

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FY22 guidance

FY22 guidance
based on current business

Segmental guidance set out in results statement

EPS growth towards or above top end of

5-7% range

Transaction timing impacts to earnings outlook	
WPD acquisition	• Earnings included from point of deal completion • Guidance with HY22 results
Gas Transmission majority stake divestment	• Expect to launch sales process second half FY22 • Full contribution removed from underlying earnings once classified as discontinued operation
Rhode Island divestment	• Earnings included up to point of sale completion

Taken together, still expect FY22 EPS growth towards or above top end of **5-7% range**

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Longer term guidance

5 year outlook		
Capital investment	**£30-35bn**	
	c.£8bn UK Electricity Transmission	**c.£4-5bn** Western Power Distribution
	c.£17bn US Regulated Businesses	**c.£2-3bn** NG Ventures
Group asset growth	**6-8% CAGR**[1]	
Gearing	Peaks in FY22, settles above 70% Credit metrics comfortably within current rating band	
EPS	**5-7% CAGR**[1] at or above top end in early years	
Dividend	Growth in line with CPIH	

1 Compound annual growth rate FY21-26

Outlook assumes purchase of Western Power Distribution; sale of Rhode Island business and majority stake in UK Gas Transmission; 2% p.a. inflation rate; GBP/USD FX rate of 1.3; and scrip uptake of 25%

Summary

- Resilient in face of COVID
- Delivered £5bn investment in critical infrastructure in FY21
- Solid underlying performance
- Enhanced long term growth profile
- New 5-year outlook



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Priorities & Outlook

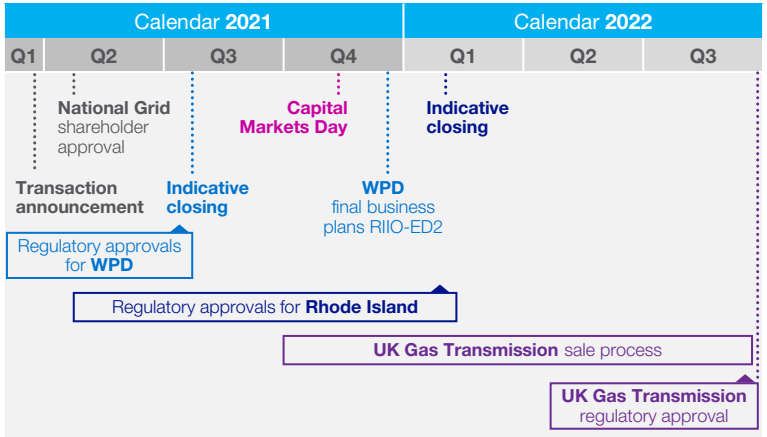
John Pettigrew
Chief Executive



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Strategic repositioning

Overall timeline summary



Timing of key steps

WPD

- Shareholders approved acquisition of WPD last month
- Notification to the CMA accepted
- Expected completion by July

Rhode Island

- Regulatory clearances by the end of the CY

UK Gas Transmission

- Expect to launch process for sale of a majority stake in second half of 2021

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Maintaining regulatory progress

UK Networks

- RIIO-T2: appeal to the CMA on cost of equity and outperformance wedge
- RIIO-ED2: we look to submit a business plan that
  - Supports innovation
  - Delivers efficiently for our customers
  - Delivers fair returns for our investors

US Networks

- Multi-year settlement filed for upstate New York Niagara Mohawk (NIMO)
  - Investment to support affordable decarbonised heating
  - Maintain customer affordability
- 5-year rate plan filed for Massachusetts Gas
  - Performance Based Rate Mechanism linking revenue increases to inflation
  - Innovative proposals to decarbonise our natural gas networks

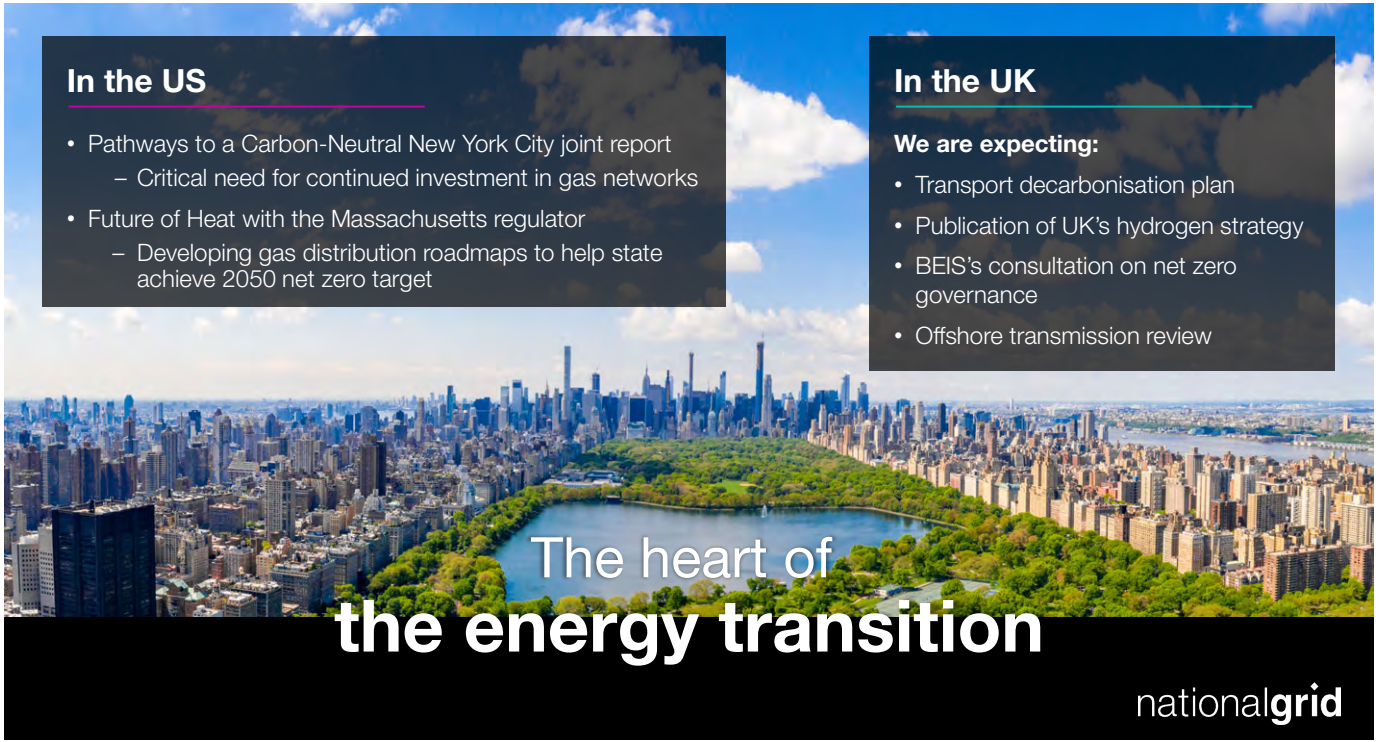
Expected regulatory timeline

END OF SUMMER 2021
Settlement for NIMO

OCTOBER 2021
Mass Gas new rates effective

END OF OCTOBER 2021
Final determination on appeal to CMA

DECEMBER 2021
Final business plans submitted for WPD


In the US
• Pathways to a Carbon-Neutral New York City joint report
– Critical need for continued investment in gas networks
• Future of Heat with the Massachusetts regulator
– Developing gas distribution roadmaps to help state achieve 2050 net zero target
In the UK
We are expecting:
• Transport decarbonisation plan
• Publication of UK's hydrogen strategy
• BEIS's consultation on net zero governance
• Offshore transmission review
The heart of
the energy transition
nationalgrid


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PRINCIPAL PARTNER
UN CLIMATE CHANGE CONFERENCE UK 2021
IN PARTNERSHIP WITH ITALY
Principal partner at UN COP26
• Ambition to enable the energy transition for all
• Using our voice to influence climate change action
Green Light Signal Smart Bulb

Strengthening our
Responsible Business commitments



Summary

- A defining year ahead
  - Strategic pivot towards electricity
  - Continued regulatory progress
  - Furthering net zero roadmaps
  - Calling for further climate change action at COP26
- Geographic and regulatory diversity - stability and a platform for growth
- Attractive asset growth driving sustainable long-term earnings growth
- Maintaining and underpinning our dividend policy



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Q&A

By text
use the 'Text Q&A' tab below

By live video link
share your name, company and email address with our producer via the 'Video Q&A' tab below

In the event we do not have time for all questions, we will respond by email as soon as possible



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Appendices

Appendix 1

UK Electricity Transmission operating profit

For the year ended 31 March (£m)	2021	2020
Revenue	3,992	3,702
Pass through costs	(2,062)	(1,528)
Net revenue	1,930	2,174
Depreciation & amortisation	(507)	(469)
Regulated controllable costs	(291)	(306)
Pensions	(45)	(48)
Other costs	(53)	(31)
Total UK Electricity Transmission operating profit	**1,034**	**1,320**

Adjusted results, excluding exceptional items and remeasurements

Appendix 2

UK Gas Transmission operating profit

For the year ended 31 March (£m)	2021	2020
Revenue	904	927
Pass through costs	(233)	(242)
Net revenue	671	685
Depreciation & amortisation	(165)	(171)
Regulated controllable costs	(122)	(127)
Pensions	(18)	(19)
Other costs	(24)	(20)
Total UK Gas Transmission operating profit	**342**	**348**

Adjusted results, excluding exceptional items and remeasurements

Appendix 3

US Regulated operating profit

For the year ended 31 March (£m)	2021	2020
Revenue	9,195	9,205
Pass through costs	(3,253)	(3,460)
Net revenue	5,942	5,745
Depreciation & amortisation	(888)	(855)
Regulated controllable costs	(1,905)	(1,871)
Pensions & OPEBs	(97)	(95)
Bad debts	(325)	(231)
Other costs	(1,414)	(1,296)
Total US Regulated operating profit	**1,313**	**1,397**

At constant currency
Adjusted results, excluding exceptional items and remeasurements
OPEBs = other post employment benefits

Appendix 4

NGV and Other Activities operating profit

For the year ended 31 March (£m)	2021	2020
Revenue	236	257
Depreciation & amortisation	(30)	(38)
Operating costs	(52)	(61)
Metering operating profit	**154**	**158**
Revenue	232	242
Depreciation & amortisation	(60)	(83)
Operating costs	(68)	(81)
Grain LNG operating profit	**104**	**78**
Revenue	72	62
Depreciation & amortisation	(7)	(6)
Operating costs	(14)	5
French interconnector operating profit	**51**	**61**
Revenue	36	76
Depreciation & amortisation	(3)	(4)
Operating costs	(11)	(9)
Property operating profit	**22**	**63**

Adjusted results, excluding exceptional items and remeasurements

Metering including Smart Metering

Appendix 5

Exchange rates

For the year ended 31 March (£m)	2021	2020
Closing $ / £ rate	1.38	1.24
Average $ / £ rate for the period	1.34	1.29

For the year ended 31 March (£m)	2020
Impact on operating profit[1]	(55)
Impact on interest[1]	30
Impact on tax, JVs and minority interests[1]	6
Net impact on earnings[1]	**(19)**
Impact on closing net debt[2]	1,604
Impact on book value of assets[2]	(1,324)

1 Currency impact calculated by applying the average 2020/21 rate to 2019/20 results
2 Currency impact calculated by applying the closing March 2021 rate to March 2020 balances
Adjusted results, excluding exceptional items and remeasurements

Appendix 6

Pensions & other post employment benefit obligations (IAS 19 data)

	UK		US		
At 31 March 2021 (£m)	**ESPS**	**NGUK PS**	**Pensions**	**OPEBs**[1]	**Total**
Fair value of assets	3,370	11,310	6,909	2,799	**24,388**
Present value of liabilities	(3,007)	(10,638)	(6,931)	(3,097)	**(23,673)**
Net (liability) / asset	363	672	(22)	(298)	**715**
Taxation	(69)	(128)	14	90	**(93)**
Net (liability) / asset net of taxation	**294**	**544**	**(8)**	**(208)**	**622**
Discount rates	2.00%	2.00%	3.25%	3.25%	

1 OPEBs = other post employment benefits

Appendix 7

Timing impacts

nationalgrid

£m	UK Electricity Transmission	UK Gas Transmission	US Regulated	Total
2020/21 Opening balance	19	5	223	**247**
2020/21 Opening balance restatement adjustment	(1)	11	4	**14**
2020/21 over / (under) recovery	(88)	(96)	(23)	**(207)**
2020/21 Closing balance	**(70)**	**(80)**	**204**	**54**
2019/20 Opening balance	(127)	59	452	**393**
2019/20 over / (under) recovery	146	(54)	(229)	**(137)**
2019/20 Closing balance	**19**	**5**	**223**	**247**
Year on year timing variance	**(234)**	**(42)**	**206**	**(70)**

2019/20 opening balance restatement reflects finalisation of timing balances
All USD balances stated using the average 20/21 rate of $1.341 to £1
2020/21 closing timing balance as at 31 March 2021 at closing rate ($1.378 to £1): £48m
2019/20 closing timing balance as at 31 March 2020 at closing rate ($1.242 to £1): £264m

Appendix 8

UK Transmission

Regulated asset values ('RAV') and returns

	UK Electricity Transmission	UK Gas Transmission
Regulator	Ofgem	Ofgem
RAV	£14,565m	£6,307m
Base allowed real return (assumed CoD 1.58%)	3.75% ('vanilla' WACC)	3.54% ('vanilla' WACC)
Allowed RoE (nominal)	10.2%	10.0%
Achieved RoE (nominal)	13.9%	9.6%
Equity / debt (assumed)	40 / 60	37.5 / 62.5
Totex capitalisation rate (TO)	85%	64%
Sharing factors (shareholder retention at RoE)	47% plus incentive schemes	44% plus incentive schemes

CoD = Cost of Debt

Appendix 9

New York jurisdiction

Regulated asset base ('Rate base') and returns

Rate bases are reported by regulatory entity as at 31 March 2021 *Returns are those for the fiscal year ended 31 March 2021*	**Long Island (KEDLI)**	**Downstate New York (KEDNY)**	**Upstate New York (NMPC Gas)**	**Upstate New York (NMPC Electric)**
Regulator	New York PSC	New York PSC	New York PSC	New York PSC
Rate base	$3,158m	$4,958m	$1,467m	$6,206m
Base allowed return	9.00% (RoE)	9.00% (RoE)	9.00% (RoE)	9.00% (RoE)
Achieved return	8.2%	6.1%	7.2%	6.3%
Equity / debt (assumed)	48 / 52	48 / 52	48 / 52	48 / 52
Sharing factors (shareholder retention at RoE)	100% to 9.5% 50% to 10.0% 25% to 10.5% 10% above 10.5%	100% to 9.5% 50% to 10.0% 25% to 10.5% 10% above 10.5%	100% to 9.5% 50% to 10.0% 25% to 10.5% 10% above 10.5%	100% to 9.5% 50% to 10.0% 25% to 10.5% 10% above 10.5%
Last rate case filing	Effective from January 2017[1]	Effective from January 2017[1]	Effective from April 2018	Effective from April 2018

1 Currently in settlement discussions with the regulator with new rates expected to be backdated to 1 April 2021

Appendix 10

Massachusetts and Rhode Island jurisdiction

Regulated asset base ('Rate base') and returns

Rate bases are reported by regulatory entity as at 31 March 2021 *Returns are those for the fiscal year ended 31 March 2021*	Massachusetts Electric[1]	Massachusetts Gas[2]	Narragansett Distribution Electric	Narragansett Distribution Gas
Regulator	Massachusetts DPU	Massachusetts DPU	Rhode Island PUC	Rhode Island PUC
Rate base	$3,033m	$3,521m	$950m	$1,082m
Base allowed return	9.6% (RoE)	9.5% (RoE)	9.3% (RoE)	9.3% (RoE)
Achieved return	5.3%	5.7%	10.0%	6.9%
Equity / debt (assumed)	53 / 47	53 / 47	51 / 49	51 / 49
Sharing factors (shareholder retention at RoE)	100% to 11.6% 25% above 11.6%	100%	100% to 9.275% 50% to 10.275% 25% above 10.275%	100% to 9.275% 50% to 10.275% 25% above 10.275%
Last rate case filing	Effective from October 2019	Effective from October 2018	Effective from September 2018	Effective from September 2018

1 Includes Nantucket Electric. The rate base includes transmission assets

2 Massachusetts Gas currently comprises two separate entities: Boston Gas and Colonial Gas. Base allowed and achieved RoE's are weighted averages (using rate base)

Appendix 11

FERC jurisdiction

Regulated asset base ('Rate base') and returns

Rate bases are reported by regulatory entity as at 31 March 2021 *Returns are those for the fiscal year ended 31 March 2021*	New England Power	Narragansett Electric (Transmission)	Other (incl Canadian interconnector)[1]	Long Island Generation[2]
Regulator	FERC	FERC	FERC	FERC
Rate base	$1,970m	$787m	$58m	$440m
Base allowed return	10.6% (RoE)	10.6% (RoE)	13.0% (RoE)	9.9% (RoE)
Achieved return	11.0%	11.1%	13.0%	12.2%
Equity / debt (assumed)	64 / 36	50 / 50	100 / 0	48 / 52
Sharing factors (shareholder retention at RoE)	100%	100%	100%	100%
Last rate case filing	Monthly formula rates	Monthly formula rates	Monthly formula rates	Effective from May 2013

1 National Grid earns a return on its ~54% stake in the Canadian interconnector
2 Long Island Generation rate base includes both baseload and peaking plant

Appendix 12

Value Added

nationalgrid

For the year ended 31 March (£m)	2021	2020 (constant currency)	change
UK RAV	20,872	20,431	441
US rate base	20,041	18,598	1,443
NG Ventures and other business assets	4,458	3,942	516
Other balances	1,478	731	747
Total group regulated assets and other balances	**46,849**	**43,702**	**3,147**
Goodwill	5,150	5,150	-
Net debt	(29,665)	(26,988)	(2,677)
Equity	**22,334**	**21,864**	**470**
Other net debt adjustments [1]			(75)
Dividend paid during the year			1,413
Value Added			1,808
Value Added per share (pence)			51.3p

1 Value added excludes movements on derivatives designated in cash flow hedging arrangements where there is no corresponding movement in total assets and other balances

Appendix 13

Group Return on Equity

For the year ended 31 March (£m)	2021	2020
Regulated financial performance	3,418	3,546
IFRS operating profit for non-regulated companies	264	269
Share of post tax results of joint ventures	66	88
Non-controlling interest	(1)	(1)
Adjusted Group interest charge	(882)	(1,069)
Adjusted Group tax charge	(591)	(550)
Adjusted Group profit after tax for RoE	**2,274**	**2,283**
Opening rate base/RAV	39,552	37,459
Opening other	3,984	3,304
Restatement of Goodwill	(482)	(503)
Opening goodwill	5,777	5,938
Opening capital employed	48,831	46,198
Opening net debt[2]	(27,398)	(27,194)
Opening Equity	**21,433**	**19,004**
Group RoE – nominal (adjusted group profit after tax / group equity value)	**10.6%**	**12.0%**

Opening goodwill in has been restated by $647m, related to historical acquisition accounting amendments in the US.

Adjusted results, excluding exceptional items and remeasurements

Appendix 14

Weighted average number of shares

nationalgrid

For the year ended 31 March	2021	2020
Number of shares (millions):		
Current period opening shares	3,508	3,410
Scrip dividend shares (weighted issue)	10	47
Other share movements (weighted from issuance/repurchase)	5	4
Weighted average number of shares	**3,523**	**3,461**
Underlying earnings (£m)	1,910	2,014
Underlying EPS (restated)	54.2p	58.2p

Adjusted results, excluding exceptional items and remeasurements

Appendix 15

Interest cover

For the year ended 31 March (£m)	2021	2020
Interest expense (income statement)	**977**	**1,119**
Hybrid interest reclassified as dividend	(38)	(39)
Capitalised interest	131	122
Pensions interest adjustment	(16)	16
Interest on lease rentals adjustment	-	-
Unwinding of discounts on provisions	(78)	(77)
Other interest adjustments	-	-
Adjusted interest expense	**976**	**1,141**
Net cash inflow from operating activities	**4,461**	**4,715**
Interest income on financial instruments	16	73
Interest paid on financial instruments	(835)	(957)
Dividends received	80	75
Working capital adjustment	(312)	(269)
add back excess employer pension contributions	116	176
add back Hybrid interest reclassified as dividend	38	39
add back lease rentals	-	-
Difference in net interest expense in income statement to cash flow	(138)	(187)
Difference in current tax in income statement to cash flow	(67)	67
add back current tax related to prior years	8	(45)
Net cash inflow from discontinued operations	-	(97)
Other Fair value adjustments	22	-
Funds from operations (FFO)	**3,389**	**3,590**
Interest cover:		
(Funds from operations + adjusted interest expense) / adjusted interest expense	**4.5x**	**4.1x**

Appendix 16

RCF:Debt

nationalgrid

For the year ended 31 March (£m)	2021	2020
Funds from operations (FFO)	**3,389**	**3,590**
Hybrid interest reclassified as dividend	(38)	(39)
Ordinary dividends paid to shareholders	(1,413)	(892)
Retained cash flow (RCF)	**1,938**	**2,659**
Borrowings	32,339	30,794
Less		
50% hybrid debt	(1,032)	(1,054)
Cash & cash equivalents	(157)	(73)
Restricted cash	-	-
Financial and other investments	(1,768)	(1,278)
Underfunded pension obligations	467	1,442
Operating leases adjustment	-	-
Derivative asset removed from debt	-	(116)
Currency swaps	-	203
Nuclear decommissioning liabilities reclassified as debt	-	6
Collateral - cash received under collateral agreements	(582)	(785)
Accrued interest removed from short-term debt	-	(246)
Adjusted Net Debt (includes pension deficit)	**29,267**	**28,893**
RCF / adjusted net debt	**6.6%**	**9.2%**

Appendix 17

UK Electricity Transmission net revenue

For the year ended 31 March (£m)		2021
Revenue		**4,168**
Net timing adjustment		(88)
Pass through costs		
BSIS costs	(1,911)	
Electricity Transmission pass through costs	(151)	
		(2,062)
Net revenue adjusted for timing		**2,018**

	£m
Incentives (excluding totex), true ups (non-controllable costs, pensions etc.) and revenue over/under recoveries	
Deferred for future recovery/(return):	
Incentives	(24)
True ups	(38)
Revenue under/(over) recovery	(62)
(Collection)/return of prior year deferrals	36
Net timing adjustment	**(88)**

Appendix 18

UK Electricity Transmission operating profit

nationalgrid

For the year ended 31 March (£m)		2021
Net Revenue adjusted for timing		
Transmission Owner (ETO) excluding incentives	**1,724**	
ETO incentives	26	
System Operator (ESO) including incentives	**231**	
Other (including legal settlements)	37	
		2,018
Depreciation & Amortisation		
Electricity Transmission Owner	(461)	
Electricity System Operator	(46)	
		(507)
Regulated Controllable costs, pensions and other costs		
Electricity Transmission Owner	(268)	
Electricity System Operator	(121)	
		(389)
Total UK Electricity Transmission operating profit adjusted for timing		
Electricity Transmission Owner	1,052	
Electricity System Operator	64	
Other	6	
Total UK Electricity Transmission operating profit adjusted for timing		**1,122**
Timing adjustment		**(88)**
Total UK Electricity Transmission operating profit: headline		**1,034**

	£m
Ofgem annual iteration TO revenue	1,190
- model non-controllable costs	(88)
+ inflate to actual 19/20 prices	400
Ofgem model net revenue	**1,502**
+ network innovation allowance, contributions, pensions true up and other	24
+ excluded services income	198
TO net revenue excluding timing and incentives	**1,724**

Appendix 19

UK Gas Transmission net revenue

nationalgrid

For the year ended 31 March (£m)		2021
Revenue		**1,096**
Net timing adjustment		**(96)**
Pass through costs		
Gas Transmission Owner (GTO) pass through costs	(150)	
Gas System Operator (GSO) pass through costs	(83)	
		(233)
Net revenue adjusted for timing		**767**

	£m
Incentives (excluding totex), true ups (non-controllable costs, pensions etc.) and revenue over/under recoveries	
Deferred for future recovery/(return):	
Incentives	(19)
True ups	64
Revenue under/(over) recovery	(121)
(Collection)/return of prior year deferrals	(20)
Net timing adjustment	**(96)**

Appendix 20

UK Gas Transmission operating profit

nationalgrid

For the year ended 31 March (£m)		2020
Net Revenue adjusted for timing		
Transmission Owner (GTO) excluding incentives	**634**	
GTO incentives	5	
System Operator (GSO) excluding incentives	**108**	
GSO incentives (excluding revenue drivers)	21	
Other including LNG Storage	(1)	
		767
Depreciation & Amortisation		
Gas Transmission Owner	(141)	
Gas System Operator	(24)	
		(165)
Regulated Controllable costs, pensions and other costs		
Gas Transmission Owner	(114)	
Gas System Operator	(50)	
Other		
		(164)
Total UK Gas Transmission operating profit adjusted for timing		
Gas Transmission Owner	384	
Gas System Operator	55	
LNG Storage & Other	(1)	
Total UK Gas Transmission operating profit adjusted for timing		**438**
Timing adjustment		**(96)**
Total UK Gas Transmission operating profit: headline		**342**

	£m
Ofgem annual iteration TO revenue	555
- model non-controllable costs	(110)
+ inflate to actual 19/20 prices	162
Ofgem model net revenue	**607**
+ network innovation allowance, contributions, pensions true up and other	17
+ excluded services income	10
TO net revenue excluding timing and incentives	**634**

	£m
Ofgem annual iteration SO revenue	79
+ inflate to actual 19/20 prices	29
Ofgem model net revenue	**108**
SO net revenue excluding timing and incentives	**108**

Appendix 21

Reconciliation of adjusted EPS to statutory EPS

(including and excluding timing and major storm costs)

For the year ended 31 March (pence)	2021	2020
Underlying EPS from continuing operations	**54.2**	**58.2**
Timing and major storm costs	(7.8)	(3.0)
Adjusted EPS from continuing operations	**46.4**	**55.2**
Exceptional items after tax from continuing operations	(1.6)	(14.2)
Remeasurements after tax from continuing operations	1.8	(4.2)
EPS from continuing operations	**46.6**	**36.8**
Statutory EPS from discontinuing operations		(0.3)
Statutory EPS	**46.6**	**36.5**

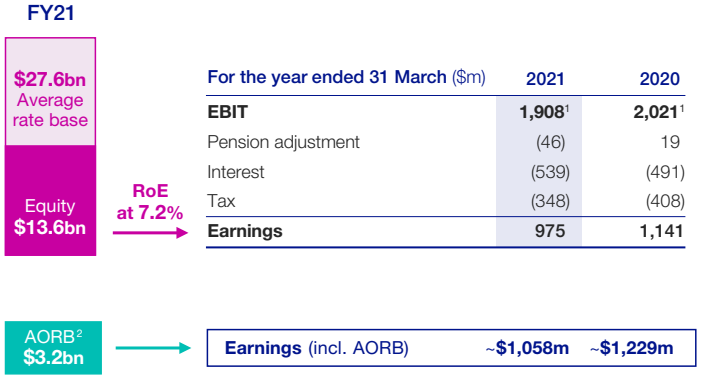
Appendix 22

Adjusted US GAAP earnings

nationalgrid

Growth in earnings driven by

- Rate base growth of 8%
- An decrease in our achieved return on equity to 7.2% (FY20: 9.3%)



For the year ended 31 March ($m)	2021	2020
EBIT	**1,908**[1]	**2,021**[1]
Pension adjustment	(46)	19
Interest	(539)	(491)
Tax	(348)	(408)
Earnings	**975**	**1,141**

Earnings (incl. AORB)	**~$1,058m**	**~$1,229m**

1 Includes an adjustment reflecting our expectation for future recovery of COVID-19 related bad and doubtful debt costs
2 Assets outside rate base excluding working capital

National Grid

Full Year Results Presentation 2020/21

20 May 2021

National Grid

Nick Ashworth, Director of Investor Relations

John Pettigrew, Chief Executive Officer

Andy Agg, Chief Financial Officer

Questions

Dominic Nash, Barclays

Chris Laybutt, Morgan Stanley

Jenny Ping, Citi

Mark Freshney, Credit Suisse

John Musk, RBC

Ajay Patel, Goldman Sachs

Sam Arie, UBS

Martin Young, Investec

Deepa Venkateswaran, Bernstein

Ahmed Farman, Jefferies

Elchin Mammadov, Bloomberg

Bartek Kubicki, Societe Generale

Nick Ashworth, Director of Investor Relations
Good morning everyone and welcome to the National Grid Full Year Results Presentation.

I'm Nick Ashworth, Director of Investor Relations, and I'm here with our Chief Executive John Pettigrew, and CFO Andy Agg.

I'm pleased that we're able to join you this morning by video, and that we'll also be able to see you ask questions by video. Instructions are on your webcast screen.

So, before we start, I'd just like to draw your attention to the Cautionary Statement that you'll find at the front of the presentation.

And, after the presentation, as usual, the IR team will be available by phone to help if you have any further questions.

And so with that I'll to hand over to our CEO John Pettigrew. John.

. . . . . .

Key Highlights

John Pettigrew, Chief Executive Officer
Thank you, Nick, and good morning everyone and welcome to the call.

As usual I'm joined by Andy Agg, our CFO, and following the presentation, we'll both be happy to take your questions.

A lot has happened over the past year. We've performed strongly during the pandemic and delivered solid financial performance, testament to the resilience of our businesses and commitment of our people.

It's from this position of strength that we announced our acquisition of WPD in March. This is a transformational development for National Grid, increasing our focus on electricity, putting us firmly at the heart of the energy transition and enhancing the long-term growth profile of the Group.

This transaction alongside our decision to sell a majority stake in our UK Gas Transmission business, combined with a greater level of regulatory certainty, underpins the new 5-year outlook that we're announcing today.

But first, let me start with the financial performance for the year.

On an underlying basis, that is excluding the impact of timing, major storms and exceptional items. Operating profit of £3.3bn was 3% below last year at constant currency, driven by the financial impact of COVID.

Consequently, underlying earnings per share was down 7% to 54.2 pence. And Group return on equity was 10.6%.

Excluding the increase in costs due to COVID, financial performance across our regulated businesses was in line with last year.

Andy will cover the impact of COVID in more detail shortly, but as I've said previously, we expect to recover the majority of these costs over the medium term.

And despite the challenges brought about by COVID, we've delivered another strong year of investment in critical infrastructure.

Capital expenditure was in line with guidance at £5bn, similar to the prior year at constant currency, and adjusting for the Geronimo acquisition. This has driven Group asset growth of 6%.

In line with our policy, the Board has proposed a final dividend of 32.16 pence per share. This takes the total dividend for the year to 49.16 pence, an increase of 1.21%, in line with UK RPI.

Looking forward and reflecting the move from RPI to CPIH in our UK regulated businesses, the Board announced in March, our aim to grow the annual dividend per share, in line with UK CPIH.

Turning next to our safety and reliability performance. Safety is at the heart of performance across our businesses. FY'21 saw our lost time injury frequency rates reduce, with the UK delivering its best ever year of safety.

In the US we also saw a fall in our lost time injury frequency rates. Whilst in National Grid Ventures, we've seen a small rise in minor incidents, and are redoubling our efforts to reverse this trend.

Turning to reliability, performance has remained excellent across our UK and US regulated networks. In particular, I'm really pleased with how the teams have adapted to the changing demand patterns we've seen, over the past 12 months.

In the UK, the Electricity System Operator developed new innovative services, to manage periods of very low levels of demand, coupled with high levels of renewable generation.

And we implemented learnings from the storms in 2018, to manage the highest gas demand seen in a decade, without incident or disruption to our customers.

In the US, electricity network reliability remained excellent at over 99.9%. However, the significant number of severe storms we experienced throughout the year, particularly in Massachusetts, led us to incur, a service quality penalty, of $14m.

We're continuing to take action to improve performance during storms, as well as to re-align our regulatory frameworks, which I'll talk about shortly.

Overall, I'm pleased to say, we delivered another good year for safety and reliability, against a challenging backdrop. And this outcome underpinned our resilient operational performance, which I'll cover now.

So Starting with the US, where we've made good operational progress against our targets. Our financial performance has been impacted by the additional costs of COVID, and a greater number of storms, with our achieved return on equity, decreasing by 210 basis points to 7.2%.

Adjusting for these headwinds, and the impact of rate case delays, shows our return on equity at 8.6%, or 92% of our allowed return.

As we highlighted at our half year results, and as the slide shows, we've seen a greater number of storms across our regions in the past year. However, we've made strong progress to minimise their impact, through upgrading our infrastructure, undertaking weather impact studies, as well as introducing new digital technologies in areas such as vegetation management.

Our success at reducing their impact, means more storms are being categorised as minor, which do not qualify for cost deferral and recovery. We're therefore developing new mechanisms for future rate cases, that will both incentivise improved storm performance, and provide for a greater level of upfront cost recovery.

During the year, we increased investment in critical infrastructure by $200m to $4.3bn, with our single largest area of investment continuing to be our gas pipe replacement programme.

Despite challenges due to COVID, we managed to deliver over 350 miles of mains replacement, exceeding our initial target of 300 miles. This means, we're now well over halfway through, the 20 thousand miles we've identified that we need to replace. This enabled us to continue to deliver strong rate base growth, at 8% in FY'21.

On the regulatory front, we've made significant progress this year. We've reached a joint proposal with the New York Public Service Commission staff for KEDNY/KEDLI in Downstate New York. The 3-year settlement, which includes an allowable ROE of 8.8%, will see us invest $3.3bn to modernise gas infrastructure and enhance network safety; and supports a sustainable and affordable path towards a low-carbon energy future.

In Upstate New York, the new filings for our Niagara Mohawk business are in settlement discussions, and we expect an outcome sometime this summer.

And in November we filed a 5-year rate plan for our Massachusetts Gas business. Hearings are underway, and we expect the new rates to be effective from October this year.

Finally, it's also been a good year for our electricity transmission business. With increasing focus on delivering greater levels of renewable energy, the New York Power Authority has selected National Grid as a partner, in the Northern New York Priority Transmission Project. This project will see us invest an estimated $500m over four years, to rebuild a 100-mile transmission line, supporting the state in meeting its clean energy goals.

So moving to the UK, where FY'21 marked the end of a very successful RIIO-T1 period. Through the 8 years, our total investment reached over £12.5bn and generated over £850m of savings for customers.

In our last year of T1 we achieved a return on equity of 12.6%, within our target range of 200 to 300 basis points of outperformance.

And I'm really pleased to say, that this year in both our Electricity and Gas Transmission businesses, we saw our highest customer and stakeholder satisfaction scores, of the T1 period.

We continued our capital programme with £1.2bn of investment, leading to 2.2% asset growth. Spend was driven by significant progress on the Hinkley Seabank connection, and the second phase of our London Power Tunnels project. This was partly offset by lower spend in Gas Transmission, following the completion of the Feeder 9 project.

We're also investing in new technology, that's helping to support connecting increasing levels of renewable generation on our electricity transmission system. Working with a Californian company called Smart Wires, we're installing smart power flow control devices, that increase our network capacity, without the need to build new lines.

This is the first time this solution has been used at transmission voltages and we've already commissioned three circuits with a further two expected this summer.

On the gas side, we've made significant advances with hydrogen. For example, our ambitious Future Grid project, which is the largest of its kind in the world, will test the options for repurposing the existing transmission network to hydrogen.

Finally, our focus in the UK over the last 12 months, has very much been on reaching a successful outcome for RIIO-T2. Over the 5-year price control, we expect substantially higher investment levels than in RIIO-T1, particularly in Electricity Transmission, where we expect to spend around £8bn on asset health, system reinforcement to connect offshore renewable generation, and other new onshore system connections.

However, whilst we were pleased with the improved package around investment levels in the final determination, we still believe there are strong technical arguments for a higher overall cost of equity and view the outperformance wedge as conceptually flawed.

The CMA has recently granted permission for our appeal, and we'll work closely with them, as this process moves forward through the summer.

Looking now at National Grid Ventures and our Other businesses. Investment of £576m was primarily focused on delivery of our interconnectors. IFA2 was commissioned in January, and the North Sea Link with Norway, and the Viking Link with Denmark, are on track to come on line in 2021 and 2024.

Working in collaboration with Elia and TenneT, we're continuing to assess the feasibility of offshore multi-purpose interconnectors, and believe they can play a key role, in enabling the UK government's ambition for 40 gigawatts of offshore wind.

We've been successful in our Humber Carbon Capture project, receiving a contribution of £56m from Government, to develop a system to capture, transport and store carbon emissions from industries in the Humber and Teesside areas, in partnership with a number of oil and gas majors.

Moving to the US, our onshore renewables business continues to grow, following the completion of our acquisition of Geronimo last year, now renamed National Grid Renewables.

The business operates over 400 megawatts of renewable generation, with another 600 megawatts currently under construction, including Noble, our solar and battery project in Texas, which we expect to begin operations in the first half of 2022.

With regards our other businesses, year-on-year profitability was lower, as a result of fewer land development sales, in our Property division.

So to summarise, we've delivered strong performance across our operations in a very challenging year, and with our announced transactions in March, we've further strengthened the resilience of our business as we look to the future.

So, having spent some time reviewing the year just gone, and before moving on to talk about our new 5-year outlook, I'd like to spend a moment talking about why, I think our portfolio mix is the right one.

National Grid is one of a handful of FTSE 100 companies to have consistently grown its dividend for over 20 years, helped by the balance between different regulatory regimes in the US and the UK, and the ebb and flow of capex requirements as we've seen growth rise and fall at different times in different jurisdictions.

The geographic and regulatory diversity has been key to delivering strong returns, with an annualised total shareholder return of nearly 10% over the past 10 years, versus the FTSE-100 delivering just under 6%.

And, following the completion of our transactions, I'm confident that this diversity, will continue to underpin our performance in the years ahead, given the exciting opportunities we see, including the connection of offshore wind, the infrastructure requirements for EV charging, the critical investment in safety and clean gas growth, and in our National Grid Ventures business, the opportunities with interconnectors and renewables.

As you can see, our portfolio places us firmly at the heart of the energy transition.

And so it's against this backdrop that today, for the first time, we're setting out our longer-term expectations for the Group.

The next 5 years will see us increase our capex to between £30bn and £35bn, the highest ever level of investment for National Grid.

And as we finalise the purchase of WPD, and crystalise our planned asset sales, together with this higher level of investment, we expect this to deliver Group asset growth of 6% to 8% per annum on average to 2026.

We'll deliver this growth whilst maintaining a strong balance sheet, with comfortable headroom at our current credit rating level throughout the period.

Growth in our assets, drives growth in our earnings with Group underlying EPS expected to grow by 5% to 7% per annum on average through to 2026, and to be at, or above the top end of our range, in the early years of this period.

And this will continue to support our policy, of growing the dividend in line with CPIH.

So with that, I'll now hand over to Andy, to go through our full year results, as well as providing a little more detail on our five-year plan.

I'll then come back and talk about our priorities and outlook for the coming year.

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Financial Review

Andy Agg, Chief Financial Officer
Thank you, John, and good morning everyone.

Before covering the Group's full year performance, I'd like to provide the details of the COVID financial impacts we've experienced during this year.

Firstly, I'd like to start by saying that I'm really pleased with the performance we've delivered. Our teams have done a great job in mitigating direct COVID costs, against a tough operating backdrop, whilst continuing to deliver the service our customers expect.

Against our guidance of a £400m underlying operating profit impact from COVID, we've seen an impact of £355m.

Additionally, in the past few weeks, we've recognised £59m revenue recovery in FY'21 for the commodity portion of some of our COVID bad debts. Therefore, our year end underlying operating profit impact from COVID is £296m.

This is made up of, a residual bad debt cost of £120m, a shortfall of revenue under existing rate plans of £78m, net direct COVID costs of £28m, and a £70m impact from delays to new rates being approved in KEDNY and KEDLI.

We also guided to a cash flow impact from COVID of up to £1bn for the full year, with our final cash impact being around £600m, with some elements ultimately being smaller than initially estimated.

As our regions emerge from COVID during FY'22, we continue to expect an impact to be felt from weaker demand and reduced cash collection from our US customers.

But as I've said before, in the US we remain confident that we'll be able to recover the majority of these COVID related costs, either through the usual regulatory mechanisms or through separate filings.

Turning now to the overall Group performance for the year, which was resilient in the face of COVID, delivering a solid financial performance.

As John has mentioned, underlying operating profit was £3.3bn, down 3% at constant currency versus last year mainly reflecting the impact of favourable net income from rate case increases across our US regulated businesses, lower controllable costs in our UK regulated businesses which all together were more than offset by, higher depreciation in UK electricity transmission and, the impact of COVID, including the bad debts in our US business

EPS was down 7% at 54.2 pence, reflecting COVID related costs, a weaker US dollar and lower property sales, all partly offset by lower financing costs.

Our resilient operational performance was also reflected in the 10.6% Group return on equity and our value added per share was 51.3 pence.

Our asset base grew by 5.6%, reflecting capital investment of £5bn, in line with our guidance.

The full year dividend of 49.16 pence per share is up 1.2%, in line with our policy and the Board has recommended a final dividend of 32.16 pence.

Now, looking at the performance of each of our segments in detail.

UK Electricity Transmission delivered another year of strong operational performance, achieving a 13.9% return on equity, 370 basis points above the allowed.

Totex incentives contributed 240 basis points from our streamlined capital delivery processes in load and non-load projects and further opex efficiency savings.

Other incentives and legacy allowances contributed 130 basis points, 50 basis points above last year.

Underlying operating profit of £1.1bn was down 4%, largely due to the impact of COVID and higher depreciation.

The UK efficiency programme continued to deliver savings, with a further £34m reduction in controllable costs compared to the prior year, in total exceeding the £100m overall UK efficiency savings target we set two years ago.

Capital investment at £1.1bn was 3% higher than last year, primarily due to continued spend on the second phase of the London power tunnels project and the Hinkley Seabank project.

This investment, along with the inflation linked growth in the RAV, increased our year-end regulated asset value by 3.1% to £14.6bn.

UK Gas Transmission delivered a return on equity of 9.6%, reflecting the higher capital costs of key compressor and data centre projects.

Other incentive performance at 90 basis points, was below last year due to lower shrinkage performance.

Underlying operating profit of £438m was up £36m, or 9%, compared to FY'20. This is primarily due to higher revenues, year on year RPI uplift and lower controllable costs.

Capital investment was £176m, £73m lower than last year, due to the completion of several large projects and lower spend on compressor projects and IT infrastructure.

And including inflation, the regulated asset value was flat year on year at £6.3bn.

Turning now to our US business.

The return on equity, excluding COVID, higher levels of non-deferrable storm costs and impact of rate case delays that John mentioned, was 8.6%, 92% of the allowed level.

After taking account of storms and incremental COVID costs the return on equity was 7.2%.

Underlying operating profit was £1.5bn, driven by an increase in net revenues of £216m at constant currency, reflecting rate increases and capital trackers, more than offset by an increase in controllable costs due to higher IT costs and inflation, higher depreciation due to growth in the rate base, and a year-on-year increase in COVID costs.

We've increased investment in our US networks, to $4.3bn, driving strong rate base growth of 8% to $27.6bn.

Assets outside rate base, excluding working capital, grew year on year to $3.2bn reflecting our investment in several multiyear projects we expect to be coming into service in future years.

National Grid Ventures contributed £354m, an increase of 5% on last year, including the first period of operation for IFA2, our second interconnector to France.

Grain LNG profits were higher than last year due to the extension of asset lives in line with our new contracts, and metering profits fell less than expected, reflecting a slower decline in our legacy meter population.

Capital investment decreased significantly to £509m, mainly driven by the non-recurrence of the acquisition of Geronimo and lower investment in our interconnector projects as they progress towards completion.

Our Other activities had a net charge of £61m, £34m higher than prior year reflecting fewer property sales and slightly higher insurance costs.

Our venture capital business, National Grid Partners, invested £38m, £21m lower than FY'20 at constant currency due to reduced activity at the start of the year in the early months of COVID.

Financing costs decreased by 8% at constant currency, to £942m, mostly due to lower RPI and favourable borrowing rates. The effective interest rate for the year decreased from 4.1% to 3.2%.

The underlying effective tax rate was 21.2%, 130 basis points higher than FY'20, primarily as a result of a smaller impact from tax credits relating to prior years.

Underlying earnings were down 5% at £1.9bn and underlying earnings per share decreased 7% to 54.2 pence.

Operating cash flow was £4.6bn, £300m lower than last year driven by increased storm costs, lower US customer collections, and reduced UK revenues.

During the year, we raised £5.6bn of senior debt and the year-end closing net debt was £29.7bn, including a £1.6bn favourable movement from exchange rates.

After adjusting for Rhode Island as an asset held for sale, the revised closing net debt was £28.6bn.

Our regulatory gearing for the year was at 65% and the RCF to debt and FFO debt metrics were 6.6% and 11.7% respectively. These both reflect lower revenues and COVID costs and, as we have previously said, the credit agencies have signalled they are willing to look through any short term COVID related weakness.

Going forward we expect to be comfortably positioned in our new rating band and this rating position, coupled with our regulatory frameworks, means we're well placed as we look to the future.

So, turning to our guidance, and starting with the current year. As usual, business by business detail is given in our forward guidance section in the results statement.

This forward guidance is based on our existing businesses for the entire year. Given this scenario, we expect FY'22 underlying EPS growth, to be towards, or above, the top end of the 5% to7% growth range, as set out in our 5-year guidance.

Our earnings outlook will change as the transactions move forward through the course of the year.

We expect to provide guidance on WPD by half year results, and WPD's earnings will be included in Group results from the point of deal completion.

We expect to commence the sale process for a majority stake in Gas Transmission in the second half of this financial year, and therefore under accounting rules, we expect this business to be classified as a discontinued operation. This means we'll have to remove all of its contribution to the Group results when this change in disclosure is made.

For Rhode Island, we would expect to include it earnings in our FY'22 results up to the point-of-sale completion.

So, putting this together we still expect to deliver FY'22 underlying EPS towards, or above, the top end of the 5% to 7% growth range, as set out in our 5-year guidance.

Turning now to that longer term guidance. As you'll have seen earlier, our five-year financial framework is presented based on WPD being a full member of our Group, the sale of Rhode Island completing by the end of the financial year and the sale of a majority stake of Gas Transmission completing during FY'23.

We're confident in the visibility that the £30bn to £35bn Group investment levels to FY'26 gives us and I'd like to give a little more detail about this.

In the UK we expect investment levels of around £8bn in Electricity Transmission will be needed during the RIIO-T2 period. As we explained when we accepted the majority of the T2 package, this will cover asset health, anticipatory and system reinforcement to facilitate offshore generation and other new onshore system connections.

We expect the WPD networks to be investing £4bn to £5bn over the next 5 years in asset maintenance, facilitating the infrastructure for electric vehicles and directly connected generation.

In our US businesses we expect investment of around £17bn over the years to FY'26. And as we've explained previously, this includes safety related projects in our gas networks, storm hardening and other net zero investments in our electricity distribution networks, as well as incremental investment in electricity transmission projects.

Lastly, we expect that National Grid ventures will invest £2bn to £3bn over 5 years, focusing on our interconnector programme and continued investment in US renewable generation.

As we complete the WPD purchase, subsequent asset sales, and deliver the capital investment programme, whilst taking in to account the broad economic protection our businesses have against rising macro variables such as inflation, Group asset growth is expected to be 6% to 8% per year on average to FY'26.

I've said previously that while we settle the WPD, Rhode Island and gas transmission transactions, Group gearing levels will be above current levels. Over the 5 years to FY'26, under our central assumption of CPI at 2%, we expect regulatory gearing to increase through the transactions, and then to settle above 70% once all three transactions are completed.

However, throughout the period, we expect our long run gearing levels, and the other standard metrics we monitor, to sit comfortably within our current BBB+, Baa1 corporate rating band from S&P and Moodys, and as a result we do not expect any further rating action at a Group level.

The changing mix of the Group, coupled with the strong growth opportunities we see across our businesses in the coming years is expected to deliver compound annual growth rate in underlying earnings per share in the 5% to 7% range, through to FY'26, including our long run scrip take up assumption of 25% per annum.

As we work through the transactions, together with recovery from the impact of COVID, we would expect earnings growth to be at, or above the top end of our range, in the early years. This will continue to underpin our sustainable dividend policy into the future.

So, to summarise, we've performed strongly in mitigating the direct costs of COVID and continue to work with regulators on cost recovery mechanisms, we've delivered £5bn investment in critical infrastructure and achieved a solid underlying financial performance. The recent acquisitions have enhanced the long-term growth profile of the Group, and our confidence is reflected in the new 5-year financial framework we have set out today.

Now, John will take you through the priorities and outlook for the coming year.

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Priorities and Outlook

John Pettigrew, Chief Executive Officer
Thank you, Andy. So, hopefully you can appreciate from what Andy and I have covered this morning, it's been a very busy year for the Group, and I'm pleased with the significant progress that we've made.

Within the 5-year framework we've outlined today, in the coming year our priorities are to complete our proposed transactions, maintain our regulatory progress, build momentum through stakeholder engagement, and continue to lead the debate, on climate action.

Turning first to our transactions. Our first priority will be to complete the WPD purchase this summer, and then file, the final business plan for RIIO-ED2 by the end of the year.

Preparations for the sale of our Gas Transmission business are well underway, and we still expect to launch the process in the second half of this year.

And regulatory clearances regarding our Rhode Island business are also anticipated by the end of our financial year.

Our intention is to host a capital markets event in Q4, where we'll provide more detail on our longer-term plans, and the growth opportunities we see across our businesses.

Alongside this, we'll continue to progress our regulatory agenda. In the UK, with regards to our RIIO-T2 appeal to the CMA, we expect a final determination at the end of October. And whilst not a direct read-across, we were encouraged by the CMA's recent decision on the Water PR19 review, and continue to believe, our strong technical arguments should lead to a higher level of return.

In the US, in our Upstate New York filings, we're working on agreeing a multi-year settlement, which will include investment to support decarbonised heat, whilst maintaining a focus on managing customer affordability. New rates are expected to become effective in July 2021.

And in Massachusetts Gas, the distribution filing we made in June, it proposed a new performance-based rate mechanism, that will link annual revenue increases to inflation. It also proposes funding for projects to decarbonise the gas network, including hydrogen, renewable natural gas, and demand side measures. We expect new rates to become effective from October 2021.

Whilst working with regulators on these filings, we're also excited to see greater levels of political and stakeholder engagement across all aspects of the energy transition.

In New York, we've recently published a joint report with Con Edison, and the Mayor's office, on Pathways to a Carbon-Neutral New York City. This study highlights, the critical need for continued investment in gas networks, to maintain system safety, reliability, and affordability, as we continue the energy transition.

In Massachusetts, the regulator is also consulting on the Future of Heat, as it looks to develop roadmaps with the gas distribution companies, that will help the state to achieve its 2050 net zero target.

We'll use our experience of developing scenarios for the energy transition in the UK, as well as our recent study in New York, to develop pathways, that can meet these targets, in an efficient way for our customers.

2021 will also be a very busy year with UK political engagement. We're expecting to see a transport decarbonisation plan, the publication of the UK's hydrogen strategy, BEIS's consultation on net zero governance, and further thoughts on the offshore transmission review. And we'll be engaging across all of these topics and more.

And as you've heard me say many times, our ambition is to enable the energy transition for all, and we'll continue to lead the debate on this.

This November's UN COP26 conference in Glasgow, provides us with a perfect platform to do just that, and I'm proud that National Grid is a Principal Partner of this event.

The Responsible Business Charter we laid out last year sets out our climate change strategy, including how we'll support transitioning to a cleaner energy system, a system that is vital to meet the ambitious net zero targets set by governments, regulators, and businesses.

This summer, we'll see the first publication of our Responsible Business Report, alongside our Annual report. This will showcase the priorities we've set, and actions we're taking, in delivering our climate and responsible business goals. It'll enable people to track our progress, bringing all our sustainability reporting into one place.

And I'm pleased to announce that this report will include our new Scope 3 reduction emissions target, aligned to the Science Based Target initiative, to reduce carbon emissions by 37.5% by 2034 from our 2019 baseline.

In the years ahead, we'll invest to accelerate the energy transition for all our customers, in regulated electricity and gas networks, and adjacent infrastructure that supports the goals of energy decarbonisation.

So to summarise, this is shaping up to be a defining year ahead, as we make a significant strategic pivot towards electricity, with the integration of WPD, reach an outcome on the CMA appeal on RIIO-T2, and agree new rates for upstate New York and Massachusetts Gas, work on defining net zero roadmaps, across both the UK and US, whilst also using our voice to influence climate change action, in the run up to COP26. And we're in a strong position to enact this change.

Our geographic and regulatory diversification will continue to underpin the stability of the business, as it's done over the course of the past 20 years, and it provides the platform to build on the huge number of opportunities that we see ahead.

This attractive asset growth will drive sustainable long-term earnings growth, maintaining and underpinning our dividend policy.

I'm very excited about delivering the ambitious 5 year plans we've set out, and the increasingly important role that National Grid is playing in the energy transition.

Now, before we come to questions, I'd just like to take a moment to thank Nicola Shaw who is stepping down from her role later this year. Nicola has helped to drive the UK business forward in her 5 years with the company and we wish her well for the future.

And, after over 9 years as Chairman, Sir Peter Gershon will be retiring from the Board at the end of the month. Sir Peter has made an outstanding contribution to National Grid during his tenure. National Grid is a very different and much better positioned Group to the one he joined.

I would personally like to thank him for the support and advice he has given to me, during that time.

With that, I'll thank you for listening and Andy and I will be happy to take your questions.

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Questions and Answers

Nick Ashworth, Director of Investor Relations
Thanks John. Now it's time for our Q&A. As a reminder, the instructions to ask a question are on your webcast screen and on the Q&A slide that you can see in front of you.

I'm going to hand back over to John now who will start with the video questions. John, over to you.

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John Pettigrew, Chief Executive Officer
Okay, thanks Nick. So I can see there's lots of hands up, so should we start with Dominic and then go to Chris Laybutt. So Dominic.

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Dominic Nash, Barclays
Hi, everyone, hopefully you can hear me okay. Two questions from me please.

The first question is on the capex number in the guidance you've given us of £30bn to £35bn. Within that you've obviously given us quite a tight range for ED, Electricity Distribution. The draft - can you just give us a little bit of colour there, is the draft business plan being submitted before completion of WPD? And how involved have you been on developing that plan? And do you think Ofgem will adopt a number of scenarios similar to the RIIO 2 transmission programme.

So basically the question I'm leading into is how much scope for uncertainty is there around that £4bn to £5bn?

And the second question I've got, I'm intrigued by the JV that was announced this morning with RWE on US offshore wind. Can you provide some details on this, like what size project are you lining up and is this an enduring JV, or is this a JV just for a one-off project in the US? Thank you.

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John Pettigrew, Chief Executive Officer
Thanks Dominic. So let me just pick up on the capex question first. So as you heard today what we tried to set out is a range of £30bn to £35bn, I think to reflect the confidence that we have in the transparency of the regulatory frameworks that we now see. So as you know in Electricity Transmission, we accepted the vast majority of the RIIO T2 price control and therefore we've got good visibility of what we expect the investment to be.

Similarly, you would have seen recently that we've just agreed KEDLI and KEDNY, $3.3bn over the next three years, with a potential extension for a fourth year.

With regards to WPD, obviously they have submitted their first draft business plan, they received feedback from their stakeholders. They are about to submit their second draft business plan at the end of July. That will go through the usual iteration that you'd expect during these types of price controls. And they will make a final business plan submission in December.

We've set out in our outlook that we expect it to be £4bn to £5bn. I think we are reasonably confident with that level of investment. Ofgem, usually, will look at various scenarios, but when we look at the fundamentals in terms of asset replacement, connections for distributed generation and new customers, and then supporting EVs, I think the range that we've set out for the Group of £30bn to £35bn looks very sensible and we're very comfortable with that.

With regards to RWE and the announcement on that, so as you know over the last few years, we've always looked to use the capabilities that we have in National Grid to look to adjacent markets. Most recently, over the last three of four years, that has been in our interconnectors business, as well as onshore solar in renewables with the acquisition of Geronimo, which is now National Grid Renewables.

So over the last few years we've build up a fantastic capability of being able to develop these offshore cables. Add to that the local knowledge we have in the North East and the RWE JV just looks like a national extension.

So, as always, we take a very disciplined approach to any investments that we take. We are not expecting there to be significant capex in the short term. As you know the development of offshore wind has a long lead time, both in terms of the seabed lease process and then ultimately the construction. So modest capex in the next three to four years, but we do see it as a natural extension of our National Grid Ventures business.

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Dominic Nash, Barclays
Following on from that, is it a JV that covers RWE for all offshore in North America, or is it just that single project?

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John Pettigrew, Chief Executive Officer
It's focusing on the developments as we see them today in the North East and we'll see how we take that forward on it. So it's not just a single project, it is a relationship for offshore wind in the North East of the US.

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Dominic Nash, Barclays
Thank you.

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John Pettigrew, Chief Executive Officer
Okay, should we take Chris's question and then turn to Jenny.

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Chris Laybutt, Morgan Stanley
Good morning, thank you very much. And I guess a thank you from me also for providing five-year guidance at EPS, that's very useful for us. In terms of that guidance, our immediate thoughts this morning went to the impact of COVID on '21, which was 6 to 7 pence at EPS on our calculations. Reflecting on your recent experience with the PSC, do you think that might be a little bit more challenging than previously thought to recover that amount? And how long do you think that might take to recover that lost ground?

And then secondly, just on storms, it looks like non-deferrable storm costs have increased fairly significantly in the period. Do you think that's a trend which will be ongoing and if so, how long do you think it will take for your proposed mechanisms to be in place to recover these costs? Are they in specific areas under the mandate of specific regulators, or is it quite widespread? Just some more detail would be very helpful. Thank you.

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John Pettigrew, Chief Executive Officer
Thanks Chris. Why don't I take the second then Andy, if you want to pick up the first?

So in terms of the non-deferrable storms, I mean what we actually saw in the last 12 months Chris is probably a doubling of the level of storms that we normally see at this time of year. And at one level we're sort of a victim of our success, which is the storms, when they do happen, are having a lower impact on our customer base and therefore rather than being classed as major storms, which we can then defer and get recovery on, they're being captured as minor storms.

So we've recognised that issue in terms of our improved performance when we have storms and we've started to engage with regulators in Massachusetts Rhode Island and New York, about how we can ensure that the rate filings that we do going forwards capture fairly the actual cost of minor storms as they come along.

I think it's too early to assume that we're actually seeing more storms every year going forward. We are doing some work look at the weather and whether there is an impact that's more sort of permanent. But at the moment we're engaging with our regulators to make sure that when we go our rate filings, we get some upfront recovery, as well as being incentivised on the performance of storms. Andy.

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Andy Agg, Chief Financial Officer

Thanks John. So in terms of the recovery, I think as we've said previously the recovery of the COVID costs, particularly the bad debts that we've incurred to date, we still expect to recovery the majority of those, but as we've previously said, we expect that to be over a period of time, so into the medium term, you know, years rather than months.

The element that we reported today, the £59m of commodity recovery is if you like the first instalment. But we expect that to come back in over a period of time.

I think in terms of FY'22, absolutely we expect a much smaller impact of COVID, as we mentioned this morning, some ongoing minor impacts in terms of US collections and bad debts. But in terms of the overall guidance for FY'22, as well as COVID, you obviously need to look at the impacts of the Electricity Transmission business moving into T2 and also the higher interest costs that we guided to this morning as well.

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Chris Laybutt, Morgan Stanley
So Andy, in terms of that COVID impact, which gets a little bit, I guess - you're paring in back in '22, but do we assume that by the end of the five years you've recovered all of that lost ground and so that sort of 6 to 7 pence, comes back to you in the form of earnings, is that the assumption underpinning the guidance?

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Andy Agg, Chief Financial Officer
I mean it's hard to be precise until we've agreed all of those specific mechanisms, but I think it's fair to say that over the period of five years we would anticipate recovering the majority of it. But we'll be able to firm that up once we get the specific mechanisms in place.

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Chris Laybutt, Morgan Stanley
Thank you.

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John Pettigrew, Chief Executive Officer
Thanks Chris. Should we go to Jenny and then to Mark Freshney?

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Jenny Ping, Citi
Hi, thanks. A couple of questions please. If I can just follow on from Dominic's question in terms of the RWE JV. Is this a venture for Geronimo that's specifically focused on the North East of the US, or are you thinking of going offshore wind more globally, so really making grounds in entering that market? That's the first question.

And then secondly, just on your Ventures business, you talk about a capex of £2bn to £3bn, predominantly linked to the interconnectors, as well as the US Renewables business. Can you talk a little bit more about multipurpose interconnectors, the £23bn to £29bn that the UK Government is talking about to connect the 30 gigawatts? And more specifically, you know, because the £2bn to £3bn capex that you've highlighted what is the potential scope and also timelines of when we can hear from the Government on this?

And then linked to that I guess is - you're talking about a 70% debt to RAV already post transactions. So if the MPIs were to come along and further growth in Ventures, does that mean you need to raise additional equity, or is - the hybrids possibility will cover that? Thanks.

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John Pettigrew, Chief Executive Officer
Okay, thanks Jenny, there's quite a lot of questions there, so I'll just work through all of that. So in terms of the JV with RWE and our thinking about involvement in offshore wind, this is very much around the North East of the US. So as I've said previously, we look for opportunities where we've got capabilities and that we can create value for our shareholders.

We have fantastic expertise in offshore cables, and we have fantastic expertise in understanding onshore transmission and distribution in the North East. So that capabilities means that we're a strong partner with RWE in that region. But we're not looking to expand beyond that. We will focus on the regions that we know best.

In terms of the National Grid Ventures and the £2bn to £3bn, so we have a great pipeline of investment opportunities. As Andy and I have said many times we'll be disciplined around that. so those opportunities include potentially things like MPIs, as well as onshore solar and wind in the US.

With regards to the MPIs, at the moment it's a relatively early concept, we think that it has potential in terms of mitigating some of the cost impacts of connecting offshore wind, whilst take advantage of connecting the UK with the rest of Europe. So hence why we're working with TenneT and Elia to think through that.

In terms of the broader sort of capex to connect the 30 gigawatts of offshore wind, I think the current review that's going on with BEIS on the Offshore Transmission Review is incredibly important. I think everybody recognises that the concept of every single individual offshore wind farm connecting to the East Coast is going to be problematic from a planning perspective and therefore a degree of coordination is needed. From our perspective, clearly when we understand exactly the timing of that investment then we'll be able to have a better understanding of how much investment is needed onshore.

One of the things that National Grid has been advocating for and others in the industry are, is to have a clearer blueprint of what the networks look like, both offshore and onshore by 2030. And we'll continue to advocate that. And I know that Ofgem have recently started to engage in this issue to try and get a better understanding of what infrastructure investment is needed.

Andy, do you want to pick up the second point?

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Andy Agg, Chief Financial Officer
Yeah, so Jenny in terms of I guess your point about the funding of those potential additional investments, I think as John said, the timescales may be slightly further out, given the elements that need to be worked through. So we are comfortable in terms of funding the range of investments we put out.

And as we've always said, you know, to make disciplined decisions about investing in additional projects we want to make sure we have the right regulatory or other frameworks to ensure appropriate funding for those and recovery of those investments as well. So we'd made those decisions down the track. But at this point we're very comfortable with the framework we've set out this morning.

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Jenny Ping, Citi
Thank you.

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John Pettigrew, Chief Executive Officer
Okay, thanks. Should we take Mark, and then should we go to John Musk after that?

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Mark Freshney, Credit Suisse
Hello, thank you for taking my questions. I have two major questions. The first one is on the Ofgem report on System Operator Independence that they have sent to BEIS. We've heard very little on that since then. When you meet with BEIS ministers, you know, what are they saying and how likely is it that you may be forced to look at independent ownership there?

And just secondly on the Gas Transmission business, returns - we know the RIIO 1 price control was just inappropriate for that business eight years ago, we know that, and you know in the final year of RIIO 1 the ROEs were almost unacceptable, the outperformance was almost unacceptable. But in terms of RIIO 2 how is that review looking for that business? And what steps have you and Nicola and the MD of that business made to turnaround performance ahead of sale?

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John Pettigrew, Chief Executive Officer
Thank you, Mark. In terms of the Electricity System Operator, you're quite right, so that last sort of key piece of news was Ofgem's consultation that looked at its thoughts on the future role of the ESO.

Since then things haven't hugely progressed, the next step in the process is the BEIS are due to issue a broader consultation around the institutional arrangements that will support the energy transition to net zero to the UK.

National Grid's position hasn't changed either, in that we continue to work with Ofgem and BEIS. We believe it is important to look at the institutional arrangements and inevitably as part of that you get into the role of the ESO. Until you do that broader piece looking right across the industry it's difficult to decide whether it's right that the ESO should be further separated from National Grid.

So we're participating in that, the exact timing for BEIS to do their consultation, I think it's slightly unclear, I know it's due this year but whether it's before the summer recess or after I'm not yet clear, Mark. But we continue to participate in that discussion as we said at the half year results.

In terms of Gas Transmission, so in terms of - as you know as part of the price control for RIIO T2 we accepted the vast majority of the price control, both for Electricity Transmission and Gas Transmission. You'll recall that when we had the session on that we talked about £10bn of investment across the UK, £8bn of that related to the Electricity Transmission and just under £2bn of it to Gas Transmission.

So there is a step up in the level of investment that's been agreed as part of RIIO T2, compared to T1 for Gas Transmission. And we were comfortable that that base level of capex, together with the uncertainty mechanisms that were put in place to deal with things like compressor replacement for environmental issues was sufficient for us to be able to agree to those levels.

So given that we remain confident that we've got the right levels of capex to support the business going forwards.

In terms of the sale process itself, we're still in the early stages of that. So as we said back in March, we're intending to launch the process in the second half of this year. We believe it will be a competitive process. you know the Gas Transmission business is a strong business, it's got a great reputation and with the clarity of regulation that we now have we expect that that will be a competitive process.

Thanks Mark. Should we go to John and then we'll go to Ajay after that?

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John Musk, RBC
Morning, two questions from me. Firstly on the CMA process, I just wanted to understand what sort of input you've had into that since that's ticked off, what discussions there may have been between them and you, or is it very much that you've submitted your files and you're just waiting to hear back?

And then secondly, I did have a question on ESO as well, but Mark took that. But can you just give the numbers of the System Operator this year, or sorry in FY'21, what did that contribute at EBIT and what is it as a share of RCV or a number for the RCV?

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John Pettigrew, Chief Executive Officer
Thanks John, I'll let Andy pick up the numbers on the ESO. I mean in terms of the CMA process, so as you know our application was - in terms of the challenge around the cost of equity and the outperformance wedge was agreed. Actually this week there were clarification sessions with the Commission, so Nicola Shaw and the team were actually in front of the Commission this week. But it was very much around clarification and understanding of the submission that we'd made.

The next steps are there will be sessions around cost of equity, outperformance wedge, and for the other networks of course they refer to other aspects. And the timing is I think August for draft decision and then a final decision in October. So we are engaged with the Commission and this week really has been the first step when we've been in front of the commission to be able to make some points. Andy.

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Andy Agg, Chief Financial Officer
Yeah, John, just in terms of the ESO so its operating profit for FY'21 was £70m, so that's significantly down on last year because we had some specific one-off recovery amounts last year around some of the data centre work in particular. So £70m this year and I think that's consistent with what we've said for many years, which is it's a very small part of the overall organisation, around 2% of the total business.

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John Pettigrew, Chief Executive Officer
Thanks John, should we take Ajay and then go to Sam after that?

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Ajay Patel, Goldman Sachs
Good morning and thank you very much for the presentation. So I have two questions. Firstly, the one on the earnings growth over the next five years, is there any chance we could unpack that a little bit. So you know what proportion is - is there synergies in there from the WPD deal or is that not yet included, or any sort of broad proportion of the growth that comes from synergies?

What are you assuming for the sort of outcome of the reviews - are you assuming returns that are equivalent to what you've just received in Transmission or you assuming maybe with the CMA, would that be an uplift for example?

Then on the US, maybe another way of looking at it is what sort of cumulative bill increases do you think you need over the five years to attain that earnings target? To give us a sense of what may be required in the rate cases.

And then sort of more strategically - there has been a sizable change here away from gas and towards electricity as a function of that announced deals that you've made. And I was just wondering is the journey finished, or why is this the right split for the company? Maybe some thoughts there would be really, really helpful. Thank you very much.

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John Pettigrew, Chief Executive Officer
Okay, well why don't I pick up on the strategic question and then let Andy pick up on the financial questions. In terms of the strategic position - you know as we set out in March the opportunity for us to participate at scale in the UK came along with the WPD transaction. It did allow us to shift the overall Group to around about 70% electric and 30% gas and we feel that gives us the right sort of geographic and regulatory diversity that actually has delivered the sustainable returns that I talked about in my remarks this morning.

So if you look over the last ten years, we've been able to deliver total shareholder returns of just under 10% against the FTSE of 6%. And over the 20 years we've been able to deliver sustainable increases in the dividend.

So I think when we look at the overall shape of the Group, in terms of diversity and regulation we feel very comfortable.

And then added to that it really reflects I think a sort of broader view we have about how we see the energy transition. So there is no doubt we're going to see significant growth in electricity demand, but there is also no doubt that we're going to see gas play a significantly important role in this energy transition. So when we put all that today I think we're very comfortable that the shape we've got in the Group is the right one. Andy.

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Andy Agg, Chief Financial Officer
Thanks John. So Ajay, just in relation to the five-year guidance, as you can imagine a group of this size over a period of that time there's many different parameters involved in that. And what we've set out this morning is a range that we're very comfortable with in terms of the set of balanced assumptions allowing for the fact that some of those will change. You called out a few in terms of both cost efficiency, regulatory outcomes potentially from the CMA and so forth.

I think what I'd say is we're comfortable that we've made a sensible set of assumptions, based on the regulatory frameworks that we have and that it converts into a sensible bill profile. As you've seen just in the KEDLI/KEDNY joint proposal this week we've been very focused on that with our regulators in New York, for example agreeing the zero and then two and two for the outer years. And we're comfortable - you know we are focused on driving cost efficiency as we always do, that that is something that we can convert through to the appropriate level of earnings growth.

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Ajay Patel, Goldman Sachs
And I just follow up on that Andy. I just want to check that that guidance does include synergy benefits from this deal and the base level returns on the reviews at least, so that we know that these are incremental to come, or is some quantity already in the numbers? It's just so that we have a reference point to start with.

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Andy Agg, Chief Financial Officer
Again, we're not going to get drawn into specifics. I think, as we said back in March when we announced the transactions, you know, when we think about the opportunities going forward, we're confident there are opportunities to continue to deliver value for us customers through the WPD transaction and for all our stakeholders. And I think that's part of what we'll be working through as we go ahead, but, you know, we will have to continue to work on those.

I think I'd say again, you know, we're confident we've set out the right range to allow for, you know, many different outcomes in those parameters in this point.

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Ajay Patel, Goldman Sachs
Okay, all right, fair enough. Thank you very much.

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John Pettigrew, Chief Executive Officer
Okay. Shall we go to Sam and then go to Martin after that?

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Sam Arie, UBS
Hi.

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John Pettigrew, Chief Executive Officer
Thanks, Sam.

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Sam Arie, UBS
Thank you. Good morning, everybody. I have a question for Andy on the guidance and then maybe a bigger picture one for you, John.

But, Andy, let me start with the guidance question - I'm always a bit nervous when I'm kind of way down the line of questions and nobody's asked my question yet, which makes me worry, perhaps I misunderstand something, but it seems to me something very important changed on gas today. So can I just check, you've given us a five-year guidance now, which is working back from a '25/'26 number that includes zero contribution from gas at all. So you're confirming that, I guess, not just the 50% still but 100% of the gas is out of the result by '25/'26?

And then, if I heard your comments correctly earlier on in the voiceover, you might be taking 100% of gas out of the result from the second half of this year, so not even keeping, you know, a 49% associate holding, and yet you still think, in the early years of the five years, you'll beat the 5% to 7% EPS range? I mean, that sounds quite bullish and good to me, but can I just confirm, Andy, that I've understood that correctly?

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Andy Agg, Chief Financial Officer
So, not quite. Let me just take you through the two bits quickly. In terms of the five-year guidance, as you said, you know, the capex that we've set out, the £30bn to £35bn, you're absolutely right, that doesn't include an element in relation to Gas Transmission effectively because that is relating to how we will be reporting our capex. When we have a minority ongoing stake in that business, that will not show up, if you like, in our capex. That will be included in within our minority interests that will be reported through, you know, the dividend stream that we would expect to retain. So, it's not in the £30bn to £35bn, but it is included in the earnings trajectory and, ultimately, the asset growth because, obviously, our retained share in that business through to FY'26.

The point that I made this morning in my comments around the accounting rules is, you are right, that, effectively, as soon as we get to the point of the sale becoming highly probable, which we would expect to happen once we've launched the process and worked through some of the separation work that we need to step through, that, absolutely, we will have to report the whole income of Gas Transmission as discontinued through this period, even though, ultimately, we expect to retain, you know, as we said, a significant minority stake. That's just, unfortunately, how the accounting rules require us to report it.

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Sam Arie, UBS
Okay, but can I just confirm, in the 5% to 7% EPS growth, that's including a 49% gas minority then in the '25/'26 year or it's including nothing on gas?

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Andy Agg, Chief Financial Officer
In terms of the EPS guidance we've given this morning, it continues to assume a retained minority stake, yeah.

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Sam Arie, UBS
Oh, right.

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Andy Agg, Chief Financial Officer
We haven't been specific about the size.

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Sam Arie, UBS
Okay. Well, that, kind of, triggers a follow-on question. Apologies, but I suppose, you know - and I think it was a great package that you put out today and a really good presentation, the only thing that we thought there might be questions on is the sort of, implication, you said 5% to 7% earnings growth over five years, but you might be at the top of that range or slightly above in the earlier years.

If I just look at where consensus is for this coming year, consensus is looking for nearly 62p, which is, what, 14% above what you've just announced for the year completed. So I was wondering if that difference was explained by the fact that, you know, you're not going to be including any of the gas, in a surprising way, but now I think I understand that you are still including, basically, half the gas at the bottom line. So I wonder if, maybe, that means consensus is overcooking a little bit the WPD contribution for this year or could there be some other explanation? I'm assuming, I guess, Andy, that, you know, 14% would be not within what you're saying about early years EPS growth being above the 5% to 7% range.

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Andy Agg, Chief Financial Officer
Yeah, so I think it's probably not for me now to try and, you know, interpret exactly what's in consensus across different analysts.

I think, as you set out this morning, it is a complicated story. I understand that. And, obviously, over the next few days, I'm sure the team will be very happy to help you through that.

What we've been clear on this morning is, as we said, in the early years of the five, we do expect to be at, or, you know, potentially, above the top end. We do have to take account of the discontinued operations, but we're, as I said this morning, we're comfortable with that range, even with including that accounting impact that we've set out this morning.

Beyond that, it's probably sensible that we, sort of, catch up with you offline with that.

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Sam Arie, UBS

Okay. Very good. Thanks for your help on that. And, John, if I could maybe turn to you with just my bigger picture question, but I can't resist asking because you did mention the climate conference at the end of the year, and I know you're very close to the powers that be organising that conference this year. Can you just share with us any sense that you have of what actually might be achieved at that conference? I suppose, Madrid was the last one and that was a great disappointment that nothing was actually signed. What do you think might actually happen at Glasgow?

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John Pettigrew, Chief Executive Officer
Yeah, thanks, Sam. Difficult to know exactly what will happen at Glasgow, but I think what I would say is, what we've seen over the last, sort of, six to nine months in the run-up to COP26 is increasing alignment and increasingly ambitious targets being set from various countries, including the US. So I think there is a sense of optimism that something significant can be achieved at COP26.

I know that the UK Government is very keen to be able to lay out roadmaps by sector for what net zero will look like going forward as one of their objectives, so I'm pretty optimistic. I think it's a fantastic opportunity for the UK to be able to showcase all the great work that we've done so far, and actually some of the good things that we're doing to support net zero going forward as well. So, we're very proud to be a principal partner.

I'm pretty optimistic, actually, that it could be, you know, a very significant UN conference, given what I've seen in the run-up over the last six to nine months.

Okay, thanks, Sam. I'm going to go to Martin I think, and then I'm going to go Deepa.

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Martin Young, Investec
Yeah, good morning to everybody. I've got a couple of questions if I can, please. The first relates to, sort of, the high-level thinking about returns for distribution, electricity distribution in the UK.

If we look at the CMA report and your own comments this morning, I don't think there's any validity whatsoever to the idea of the outperformance wedge, so let's assume, you know, that goes, and transmission returns get positioned higher. But, if you step back and think about where the action really is likely to be over the next five, six, seven, eight years plus, it's going to be in electricity distribution with, you know, heat pump deployment, EV charging deployment, etc. You know, given the CMA comments around an uplift to the range, you know, for networks that require investment in resilience, etc, should we be thinking that the distribution rate of return should be higher than what, ultimately, gets awarded for transmission?

The second question gets back to the five-year guidance. I note that you've based that on an exchange rate of $1.3 to the pound. Obviously, we're above that level at this juncture. You know, if we were to mark that at $1.4, a little above $1.4, what would that do the guidance that you've set out this morning? Thanks.

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John Pettigrew, Chief Executive Officer
Okay. Thank you, Martin. I'll take the first question and I'll ask Andy to take the second.

So, in terms of distribution returns, I'll start with just reflecting on where we are with the CMA process for, you know, Gas Distribution and Electricity Transmission companies. I think we took some heart from the PR19 process in that there was an awful lot in there that, I think, reinforced our view that it was right to make the technical referral that we did. And I think, although, as I said in my remarks, you can't do a direct read-across. I think, if you, you know, just apply some of the logic that they've taken for the water companies to the energy companies, you will end up with a higher return than where Ofgem were in their final determination.

I think, added to that, I sort of concur with your thoughts in that, in terms of Electricity Distribution, clearly, over the next five years, there's going to be a significant need for investment to support EVs given the acceleration of the Government's target together with the need to continue to connect distributor generation. And, therefore, it does need to be in an environment that attracts investment.

I think Ofgem themselves, about 12 months ago, talked about the fact that they felt that electricity distribution was where the action would be over the next five years and therefore, you know, if you take that logic, you would suggest that you would want to see a higher return than for transmission.

Having said all that, it's early days, you know, WPD will be putting its draft business plan in at the end of the July, and then it will listen to its stakeholders before putting its final plan in at the end of December, but, you know, I definitely agree, there is an awful lot to be done, and we want to create the right environment if we're going to meet these targets that the Government has set. Andy?

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Andy Agg, Chief Financial Officer
Yeah, no, thanks, Martin. In terms of FX, as you'll know, we continue to run a significant hedge of our dollar balance sheet and our dollar assets, and that continues, you know, to give us a significant level of protection in terms of earnings volatility as well.

So, broadly, you know, as we've seen this year, around a 5 cent swing, and the average rate was just over half a penny, so it's that sort of range, you know, if you wanted to do something for your modelling.

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Martin Young, Investec
Thanks.

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John Pettigrew, Chief Executive Officer
Okay, thank you. I'm going to go to Deepa, and then I'm going go to Ahmed. So, Deepa?

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Deepa Venkateswaran, Bernstein
Thanks. I have a few questions. So, the first one is on the US business. So, next year, you've guided to a 100-basis point improvement in ROI, which would still only get you to 8.2%, so I was whether, you know, what is the mid-term objective? Do we still aim for 95% of the allowed ROIs, so towards that 9% number? So any guidance on that.

And then, long-term, how should we think about the EBIT trajectory of this division versus this '21 phase, given that now you've at least got more and more visibility on your KEDNY/KEDLI settlement. That's one area which is a bit unclear for me.

Second, a question just on the Gas Transmission sale process, when do you think the market will have an idea what valuation that asset will get? I mean, are we talking about Q3 of calendar '22 or will you already have some indication before that?

And just a clarification on, Andy, when you gave the guidance, when you've said that you expect it to be more than at the top end of the range for this year, if you took all these transaction impacts into account, can I just confirm that, on that one, Gas Transmission is not included at all, not even as associate, whereas, in your longer term guidance for the next five years, it is included as a minority?

So those would be my main questions. And the last one for you, John, I'm sure you read the IEA's Net Zero Pathway Report, so I was just wondering if you had any reflections, particularly on, you know, the mammoth task of four times scale-up in renewables in just ten years? And, you know, any thoughts on that would be greatly appreciated. Thanks.

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John Pettigrew, Chief Executive Officer
Thanks, Deepa. So I think I captured five questions there, so let me have a go at the first, the third and the fifth and then I'll let Andy do the second and the fourth I think he captured.

So, in terms of US returns, I think in our guidance we've set out some of the things that have pushed returns back this year which, you know, we're not assuming that are going to be repeated next. So, our position on US returns, you know, my position's always been the same, which is our aim to get as close to the allowed return as possible, and that will be the focus of the business going forward.

We're pleased that we've now got a settlement in KEDLI and KEDNY, and three-year settlement with an agreed capex, and $3.3bn and an 8.8% ROI. And, as you know, we've got a filing in Niagara Mohawk to complete this summer, and then Massachusetts Gas later on this year.

So, you know, our focus will continue to be to get the regulatory frameworks to recognise the challenges of affordability, but also the need for investment, but the team's aim is always to get as close to the allowed returns as possible.

In terms of the Gas Transmission sale, so just in terms of the process, so we are still in the position where we're likely to launch the process in the second half of this year.

As I've said previously, we've got quite a bit of work to do to separate out Gas Transmission from the UK business, but our base plan is that we will launch in the second half.

In terms of valuations, you know, if it follows a similar drumbeat of timings to the Gas Distribution sale, then it's likely to be around the turn of the year, but, you know, we will have a much clearer view, I think, after the summer than we have today. But my baseline assumption would be around about then.

And, in terms of the report you mentioned, I think, from our perspective, you know, we believe a lot of the targets that have been set are achievable but hugely ambitious. What we've said consistently is that we need to get the right policies and the right regulation in place. But really 2021 and 2022 needs to be the year when we start to really execution if we're going to deliver the levels of renewables and the levels of decarbonisation that have been set out in, you know, lots of reports over the last six months or so. Andy?

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Andy Agg, Chief Financial Officer
Yeah, thanks. So, Deepa, on the two, I think the first one was around how does the sort of, returns and expectations in the US flow through into earnings and operating profit of that business. And I think, as we said previously, you know, on the basis that we are continuing to target maintaining and delivering a good returns performance, over time, we would anticipate that the capex growth, and the asset growth that we're driving, will then, you know, effectively, get delivered through the earnings trajectory for that business as well.

As we've seen in, you know, the most recent rate cases we talked about this morning with KEDNY and KEDLI, in the short-term, clearly, there's a focus on customer bills, but, again, we've maintained a balanced set of assumptions looking forward and, with that, we would expect the earnings and the operating profits of the US business to go on an upwards trajectory in line with the asset growth.

In terms of GT, yes, I think is the short answer. So, as we said, for next year, the discontinue treatment means that we, effectively, have to report the whole earnings of Gas Transmission out of our FY'22 numbers. That’s what we've mentioned in terms of the next year with the flow-through of the transactions in FY'22. But you're right then, in FY'26, the five-year frame continues to assume that we earn our share from the retained minority interest in that business going forward.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Andy. Shall we go to Ahmed and then go to Elchin? So, Ahmed.

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Ahmed Farman, Jefferies
Yes, morning. Thank you for taking my questions. A few from my side.

I think, when you originally provided us the guidance for March '21, you talked about a £1bn cash impact on various, sort of, COVID-related issues, and you've, sort of, come in at £600m, so I just wanted to understand a little bit better the variation there.

And then, if you could also just talk a little bit about cash collection trends in the US and, you know, what, at your end, you can do to, sort of, improve those, that would be helpful.

And then, just finally, on the transaction effects that you outline on Page 21, and I'm just, sort of, really thinking here about the EPS bridge between '21 and '22, are you able to, sort of, give us a little bit of granularity as to what these means at the EPS level on a net basis, year-on-year impact? That would very helpful. Thank you.

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John Pettigrew, Chief Executive Officer
Thanks. Andy?

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Andy Agg, Chief Financial Officer
Okay, yeah, sure. So, on the first one, I think a few points in terms of what's driving that. I think, clearly, you know, in terms of the original guidance, we were, you know, deliberately, at the time, estimating how, you know, significant it could be. And, what we've seen, as we've gone through the year, is there's a number of elements for that which have actually come in slightly inside our expectations, so, the impact, for example, on UK demand flowing through into the revenues for the Transmission business, also some of the volume reductions in the US business as well have been slightly less.

We've still seen, as you imagine, in terms of, you know, the bad debt impact, we've still seen some lower US customer collections and, therefore, larger outstanding receivables in the US. That's still feeding through into that £600m. But all-in-all, just some of our estimations come in slightly inside, you know, what we were expecting when we set that guidance a year ago.

In terms of cash collections, I think a variety of things. To be clear, all the three states that we're in still have restrictions on ability to enact, you know, some of the specific measures around customer collections and, you know, termination for default, etc. A lot of that is still being pushed out because of COVID, quite rightly. But we are working very closely with our customers, a range of measures in terms of, you know, obviously there is federal support for low-income

households and other measures like that which enable us to continue to get revenues, you know, across our customer base.

So, we're doing what we can, and we'd expect some of those measures to either be taken away or, potentially, extended, depending on each legislator in the three states that we operate in.

And then, in terms of FY22, obviously, you know, there's the detail in the Results Statement. I think what I'd call out in terms of the bridge from '21 to '22 is we don't expect, as we said earlier, such a significant impact from COVID next year. There's a small amount still, potentially, in US bad debts that we anticipate. So the bulk of that will come back from an earnings perspective.

We've guided to the impact of moving into T2, particularly in Electricity Transmission, and then we've also mentioned the fact here that the interest rates and the interest charge is likely to increase year-on-year.

So those are the three things I'd call out, but, as I say, the detail is set out in the Results Statement.

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John Pettigrew, Chief Executive Officer
Okay. Thank you, Andy. Shall we go to Elchin and then to Bartek?

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Elchin Mammadov, Bloomberg
Hi, everyone. I have two questions, well about two topics. The first one is on rising yields and rates. Are you expecting any upward pressure on your ROI in the US business particularly? So any benefit from that given your upcoming rate case reviews? And, similarly, are you expecting any potential negative impact on the valuation of your UK Gas business?

And the second set of questions on your ESG metrics, please. I mean, following the divestments of UK GT and Rhode Island, you mentioned that the share of gas will fall to 30% of the assets, are there any plans to divest the remaining Gas business to further improve your ESG metrics, maybe that remaining minority stake possibly?

And the second part of the ESG metrics question that is not clear to me is, on your CCUS projects that you could potentially go into, would that have any impact on your emissions reporting? I don't know how CCUS counts when it comes to emissions, so if you can give us a bit more colour on that that would be great.

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John Pettigrew, Chief Executive Officer
Yeah, so I'll go to the second question and I'll ask Andy to pick put up the first.

So, with regard to the ESG metrics, I mean, I think, you know, the key message I want to get across today is the new target that we've set for our Scope 3 emissions of 37.5% reduction.

In terms of those emissions that we see in National Grid, you know, the vast majority of our emissions in that area are through the sale of Gas to our customers in the US. We don't have any intention of further divestment for, you know, the reasons I set out earlier, which is that we're very comfortable with the overall shape of the portfolio.

We think it's important that we work with our key stakeholders to work through the energy transition, and that includes the decarbonisation of gas and heat, and we think there are some, you know, really important opportunities, both in terms of renewable natural gas as well as things like repurposing the networks for hydrogen.

So, our focus is very much on those areas in terms of the actions that we can take to help with climate change and with our ESG targets.

In terms of CCUS, CCUS is a partnership that we're working on. As I said earlier, in my remarks, we've got support from the UK Government to look at these zero carbon clusters in the North East. Our role would be to help to develop the transport of the carbon dioxide that we captured as part of that process.

So, in terms of the target itself, it's not going to impact on the targets that we've set out, but, clearly, it is an important role as we think about the broader agenda in the UK, about how we decarbonise gas. So, you know, what we're looking at there is a cluster whereby industry can, potentially, use hydrogen rather than natural gas. Generation is using hydrogen either directly, to create electricity, or that it's being captured at the back end through the carbon capture storage, and then we transport the carbon dioxide that is captured back to oil gas fields in the North Sea.

So, I think it's a really positive project, it's got significant government support, as you will have seen as part of the Prime Minister's ten-point plan, and we're working with our partners on that, on the sort of, early engineering feasibility of it. Andy?

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Andy Agg, Chief Financial Officer
Yeah. Thanks, John. So, I think, in terms of the two areas, in terms of the US ROIs, so, as you're probably aware, the methodology for setting US cost of equity is well-established, it's a very mathematical calculation and, subject to, sort of, you know, reviews through to the litigation process as well.

So, you know, there could, potentially, be upside if those rates stay high for longer. We'll have to wait and see. It's not something that we're anticipating, and it's certainly not something we've assumed in the guidance we've set out this morning, but one other thing I would say is that, actually, cost of equity has held up very resiliently when we've been through such an elongated low-rate period. But, yes, there is potential upside in the future, but we're not banking on that today.

In terms of Gas Transmission, I think two things. Obviously, the debt book within the Gas Transmission business is a long-term portfolio. It has a good proportion of both index-linked debt and also fixed rate debt as well. So, we don't have a significant exposure to short-term rate movements.

Obviously, we have the debt tracker mechanism in that business as well, which has served us well. And I think, going into T2 and beyond, obviously, we've agreed the indexation of the cost of equity as part of the new price control as well. So, with all of those, I'm comfortable that, you know, we have a lot of protection against any concerns in the macro rate environment.

. . . . . .

John Pettigrew, Chief Executive Officer
Thanks, Andy.

. . . . . .

Elchin Mammadov, Bloomberg
Thank you.

. . . . . .

John Pettigrew, Chief Executive Officer
Thanks. Unfortunately, we've run out of time, so I'm going to make this the last question. So, Bartek, do you want to ask your question?

. . . . . .

Bartek Kubicki, Societe Generale
Sure. Good morning. Thank you for this. Two questions.

Firstly, I would like to ask you about this FY'22 guidance for the UK. You are talking a 30% revenues increasing in both NGGT and NGET, but, on the other hand, there is also guidance for quite significant costs increase which could also be revenues. Consequently, I would like to ask you whether you can elaborate a little bit more, what is the key driver of those costs, apart from depreciation, of course, and whether this could be somehow compensated through regulatory mechanisms?

And, secondly, I would like to ask you about the inflation protection in the US, of course, in the UK, it's clear, everything is inflation indexed, but, if we are facing rising inflation in the US, how are you protected from the regulatory point of view and from that, and whether this would squeeze your future ROEs?

And, thirdly, if you don't mind, on WPD, it has quite a lot of high coupon bonds in its portfolio, so I just wonder, once you buy it, what are you going to do with this? Are you going to somehow refinance, or will you keep their bonds on your balance sheet? Thank you.

. . . . . .

John Pettigrew, Chief Executive Officer
Yeah. So, thanks, Bartek. Why don't I take the second one on inflation and I'll ask Andy to pick up the first and the third.

So, if you look across the Group for National Grid, actually, we have reasonable protection against higher inflation. So, in the UK, obviously, we get indexation of our regulated asset base and, as a consequence to that, our revenues will follow it.

In the US, we have the ability to pass through the costs in our transmission FERC-regulated businesses.

You're probably aware that, last year, we agreed a new regulatory formula in Massachusetts for Massachusetts Electric, which is effectively an RPI minus X-type form of regulation. So, again, we get indexation there. And we have, as part of our rate filing on the gas side, done exactly the same.

And, with regard with New York, then we're able to project cost increases as part of any multi-year settlement, which, of course, we would have done as part of KEDLI and KEDNY, and we will do in Niagara Mohawk.

If we see significant inflation, you've always got the ability in the US to be able to go back in and do a subsequent rate filing. So a little bit of exposure when you've got a multi-year settlement in New York, but, across the vast majority of the Group, we've got, you know, reasonable protection against higher inflation. Andy?

. . . . . .

Andy Agg, Chief Financial Officer
Yeah, thanks. So, in terms of the question around the UK costs, as we look into FY'22, and you mentioned depreciation, obviously, that is one of the drivers with the continued growth in the asset base.

I think, remember, that the UK also includes the System Operator. There is a significant level of investment in new technology in terms of, you know, delivering their programme of work over the next five years as part of their price control. So a lot of that is passed through. So the recovery is, you know, assured, but it does flow through our numbers as opex costs, which is one of the drivers.

And then, just secondly, across the rest of the Transmission business as we deliver our increased work programmes we've talked about this morning, stepping up towards the £10bn of investment over the five years, that clearly comes with some associated opex. But the important thing, again, those are included in the allowances that have been agreed for T2.

And then on the WPD point, you know, I think I mentioned this when we announced the transactions back in March, yes, conscious that the debt book does have some high coupon debt in it today. We don't have any immediate plans for, sort of, any focused effort on that. We would expect the debt book to churn, obviously, as we go through the next few years and we refinance. And, therefore, I'd expect some opportunities as we go through that, but nothing, sort of, specifically on that at this point.

. . . . . .

John Pettigrew, Chief Executive Officer
Thank you. Thank you, Andy.

So, as I said, unfortunately, we've run out of time. Can I just say thank you, everybody, for joining us on the results call today.

As you, hopefully, have got a true sense, we're very excited about what we set out in terms of our five-year plans to deliver £30bn to £35bn over the next five years, and we look forward to seeing you all where we'll share a lot more detail with you on each of the businesses at our Capital Markets event later in the year. So thank you for joining us.

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END

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FOR IMMEDIATE RELEASE

14 June 2021

National Grid plc

Completion of acquisition of Western Power Distribution

National Grid plc ("**National Grid**") is pleased to announce that it has today completed the acquisition of PPL WPD Investments Limited (together with its subsidiary undertakings, (the "**WPD Group**")), the holding company of Western Power Distribution, the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation (the "**WPD Acquisition**").

Following National Grid's voluntary notification of the WPD Acquisition to the Competition and Markets Authority ("**CMA**"), the CMA is undertaking its merger review which has not yet concluded. As a result, and as is customary in such circumstances, the CMA has issued an Initial Enforcement Order, requiring the WPD Group to continue to be run independently from National Grid and under its existing management until the CMA review has completed.

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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. 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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 as well as increased economic uncertainty following the COVID-19 pandemic; 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; 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 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 acquisition 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. 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.

National Grid USA and The Narragansett Electric Company
Division 1-5

Request:

To the extent not provided in response to previous questions, please provide all analyses, strategy assessments, and any other Documents prepared by or for PPL pertaining to its decision to acquire Narragansett.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-5 for the requested information.

National Grid USA and The Narragansett Electric Company
Division 1-6

Request:

Please:

a. State whether PPL has at any point during the past two years evaluated acquiring any utility or utility operating in the United States other than Narragansett;

b. If PPL did conduct any such evaluation(s), please provide all analyses, strategy assessments, and any other Documents prepared by or for PPL explaining the basis for rejecting each such potential acquisition; and

c. Please provide copies of all analyses, strategy assessments, and any other Documents in which PPL compares or contrasts a potential (but rejected) acquisition target with to PPL's decision to pursue the Transaction.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-6.

National Grid USA and The Narragansett Electric Company
Division 1-7

Request:

To the extent not provided in response to DIV 1-6, please provide copies of all Documents dated March 1, 2019 or later and related to any utility acquisitions that PPL evaluated in assessing potential utility acquisition targets prior to entering into the Transaction.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-7.

National Grid USA and The Narragansett Electric Company
Division 1-8

Request:

Please state the date by which PPL anticipates that Narragansett will file its next base distribution rate case with the Rhode Island Public Utilities Commission. If PPL has not yet identified a target date for such submission, please explain the reason PPL has not yet done so.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-8 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-9

Request:

Please state whether PPL or PPL RI anticipate pursuing a multi-year rate plan for Narragansett post-Transaction.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-9 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-10

Request:

Please provide copies of all presentations to investment analysts or Credit Rating Agencies that relate to the Transaction.

Response:

Please see Attachment NG-DIV 1-10-1 through Attachment NG-DIV 1-10-4 for presentations to investment analysts and Credit Rating Agencies that relate to PPL Rhode Island Holdings, LLC's acquisition of The Narragansett Electric Company ("Narragansett") from National Grid USA (the "Transaction") with respect to National Grid USA and Narragansett. With respect to Attachment NG-DIV 1-10-4, National Grid USA and Narragansett have redacted information, which National Grid and Narragansett have determined is not relevant to this proceeding based on their sound judgment and rule of reason in providing responsive documents, consistent with the guidance provided by the Rhode Island Division of Public Utilities and Carriers Advocacy Section ("Advocacy Section") on June 22, 2021 relating to the scope of the data requests in this proceeding, and taking into account the Advocacy Section's goal of protecting ratepayers when determining scope and relevancy.

Prepared by or under the supervision of: Christopher McCusker and Legal Department

Investor Update

Proposed acquisition of Western Power Distribution (WPD) and Strategic Portfolio Repositioning

Investor Relations | March 2021

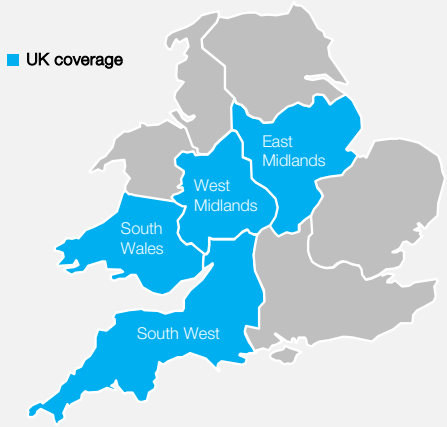


"These transactions will be transformational for our UK portfolio. The acquisition of WPDis a one-off opportunity to acquire a significant scale position in UK electricity distribution. Western Power Distribution has a high quality, fast growing asset base and an excellent track record of customer satisfaction, operational performance, and financial returns. We have received a premium valuation for our Rhode Island business and I am confident that we will also deliver attractive shareholder value from the sale of the UK Gas Transmission business in due course."

John Pettigrew
Chief Executive of National Grid

Acquisition of Western Power Distribution

- UK's largest electricity distribution network operator (DNO)



- Equity value of £7.8bn
- 6,500 employees
- 7.9 million customers
- £8.8bn estimated RAV (FY22)
- 5% annual RAV CAGR[1] delivered for ED1 period

1. Regulated asset base compound annual growth rate based on Ofgem publication

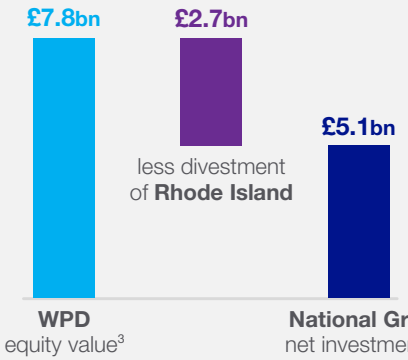
Sale of our Rhode Island business

- Electric and gas distribution business regulated by Rhode Island Public Utilities Commission; electric transmission business regulated by the FERC
- $2.6bn rate base as at March 2020
  $1.8bn distribution, $788m transmission
- Equity value of $3.8bn (£2.7bn[2])
- Net debt of $1.4bn (£1.0bn) as at 31 March 2020

2. Assumed GBP/USD FX rate of 1.39.

Funding overview (equity basis)

National Grid Contribution



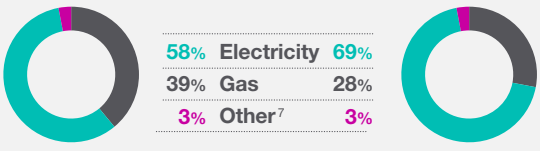
3. Subject to customary closing adjustments
4. Rhode Island is conditional upon WPD completing, but WPD is not conditional on Rhode Island completing

Intention to sell a majority stake in our UK Gas Transmission business, including gas metering

- £6.4bn March 2022 RAVe[5]
- £356m FY20 profit before tax[6]
- Plan to launch a sale in 2H 2021

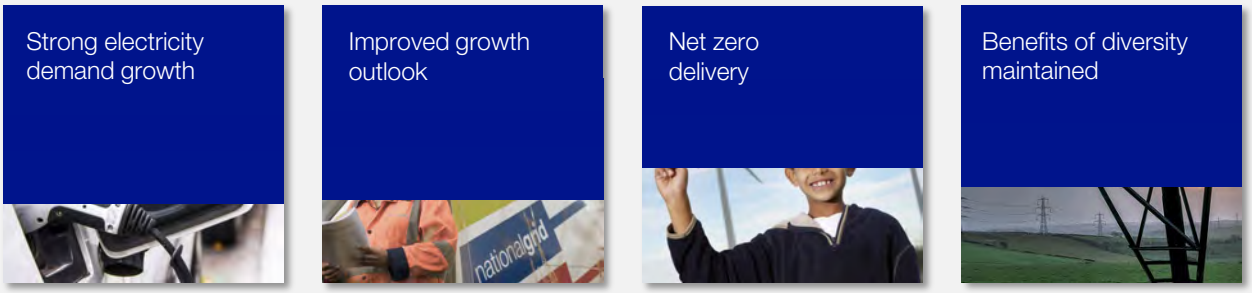
5. RAVe: estimated regulated asset value
6. National Grid Gas plc

Electricity-oriented portfolio with regulatory diversity



7. Includes US Service Co, NG Partners, Property and UK Other Assets (Corporate)

A strong strategic fit



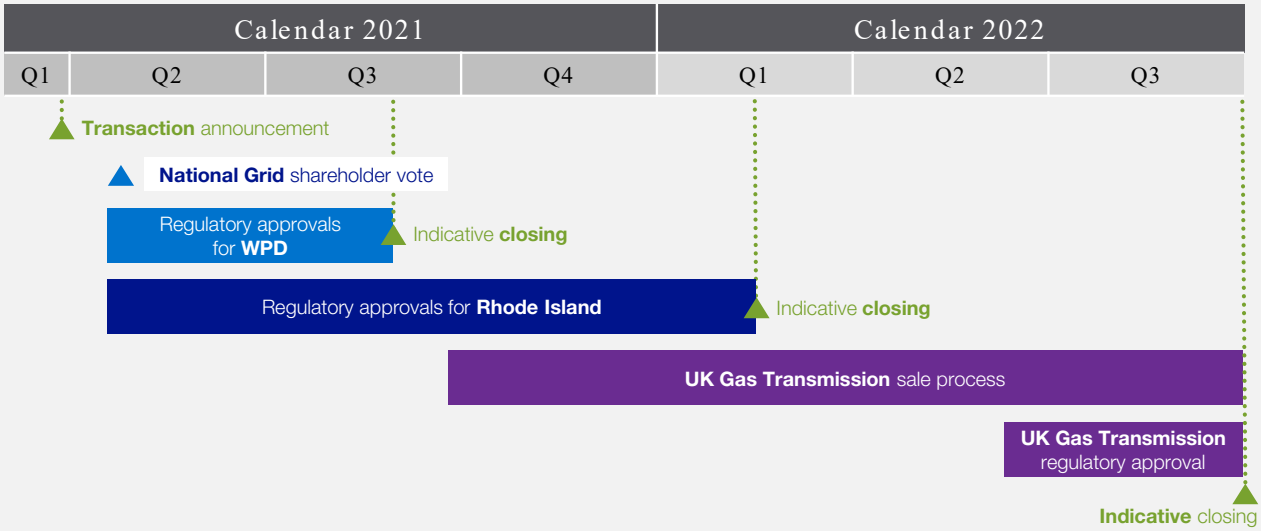
Attractive financial returns for shareholders

- Strong growth profile of WPD and potential for outperformance
- Expected strong cash flow and returns greater than cost of capital
- Valuation of WPD based on conservative assumptions for future regulatory returns
- Achieved premium valuation for Rhode Island business
- Confidence in value of UK Gas Transmission business

Following completion of three deals

- Superior growth opportunity – enabling 5-7% range for longer
- Improves earnings growth and dividend cover
- Further underpins recently updated dividend policy
- Earnings accretive
- Expect metrics to remain consistent with current ratings

Overall timeline summary



Important notice

This document 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 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. Furthermore, this document, which is provided for information only, does not constitute summary financial statements and does not contain sufficient information to allow for as full an understanding of the results and state of affairs of National Grid, including the principal risks and uncertainties facing National Grid, as would be provided by the full Annual Report and Accounts, including in particular the Strategic Report section and the 'Risk factors' section on pages 227 to 230 of National Grid's most recent Annual Report and Accounts for the year ended 31 March 2020 as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2020, published on 12 November 2020. Copies of the most recent Annual Report and Accounts are available online at www.nationalgrid.com or from Equiniti Limited. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

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Proposed Acquisition of Western Power Distribution and Strategic Portfolio Repositioning

18 March 2021

National Grid

Nick Ashworth, Director of Investor Relations

John Pettigrew, Chief Executive Officer

Andy Agg, Chief Financial Officer

Questions

Dominic Nash, Barclays

John Musk, RBC

Chris Laybutt, Morgan Stanley

Deepa Venkateswaran, Bernstein

Jenny Ping, Citi

Mark Freshney, Credit Suisse

Martin Young, Investec

James Brand, Deutsche Bank

Sam Arie, UBS

Ahmed Farman, Jefferies

Javier Garrido, JP Morgan

Nick Ashworth, Director of Investor Relations
Good morning, everyone, and welcome to our call to discuss our announcement of the proposed acquisition of Western Power Distribution and the strategic portfolio repositioning.

I'm Nick Ashworth, and I'm Head of Investor Relations here at National Grid. Thank you for joining us remotely, and I hope everyone is safe and well.

As always, I'd like to draw your attention to the cautionary statement that you'll find at the front of our presentation. And, after the presentation, as usual, the IR Team will be available, by phone, to help if you have any further questions.

As so, with that, I'd like to hand over our CEO, John Pettigrew. John.

. . . . . .

John Pettigrew, Chief Executive Officer
Thank you, Nick. And good morning, everyone. And thanks for joining this call at such short notice.

As usual, I'm joined by our CFO, Andy Agg, and, as you'll have seen from our press release, there's a lot to talk about this morning.

We've announced three significant and connected transactions; the proposed acquisition of Western Power Distribution, or WPD, here in the UK, the sale of our Rhode Island business in the US, and the intention to initiate a sale of a majority stake in our UK Gas Transmission business later this year.

As I've said on many occasions, our vision at National Grid is to be at the heart of a clean, fair and affordable energy future. We'll do this through the execution of our strategic priorities, which are to deliver for our customers efficiently, to grow our organisational capabilities, to empower our people for great performance, and to enable the energy transition for all.

It's with this vision in mind that I'm hugely excited about what the combination of these transactions will bring. They will significantly improve National Grid's strategic positioning whilst enhancing our long-term growth prospects. They will put National Grid at the heart of delivering net zero across the UK electricity sector, and they will deliver attractive financial returns for our shareholders.

Over the next 20 minutes or so, we'll discuss the strategic and financial rationale for these transactions and how they strengthen our future growth outlook. Andy and I will be happy to take your questions at the end of this.

Starting with the detail - we've agreed to acquire WPD, the UK's largest electricity distribution business, from the US utility, PPL, for an equity value of £7.8bn. At the same time, as part of this transaction, we've agreed to sell to PPL our Rhode Island business for an equity value of $3.8bn, or £2.7bn.

In addition, we're announcing our intention to initiate the sale of a majority stake in our UK Gas Transmission business.

We'll be ready to launch a sales process sometime in the second half of this year, and we'd expect the process to completion to take about a year.

We intend to fund the equity element of the WPD consideration with bridge financing, with proceeds from the sale of Rhode Island as well as proceeds from the sale of UK Gas Transmission being used to pay this down in time.

We currently expect that we'll complete the acquisition of WPD within the next four months, with Rhode Island completing in Q1 2022.

As I mentioned at the outset, I'm very excited about how these transactions will transform National Grid's shape, increasing our exposure to electricity and enhancing the long-term growth profile of the Group. Furthermore, they strengthen our core ambition, which is to enable the energy transition for all.

For those of you who have followed our story over the years, you'll know that we've a great track record of delivering shareholder value through portfolio repositioning, both large and small. This has taken the form of largescale acquisitions, with our purchase of the KeySpan business in 2006, and also crystallising shareholder value from existing assets, with the more recent sale of our UK Gas Distribution business.

The transactions we're announcing today represent the next stage of our journey.

The WPD acquisition allows National Grid to bring together two complementary businesses. WPD offers low-cost and local operational strengths which, in combination with our engineering excellence and significant experience of owning and modernising electricity distribution networks in the US, offers a compelling combination.

It will also allow a greater focus on the customer, given WPD's leading industry performance, with a great opportunity to drive improvements across our existing UK and US businesses.

The pivot from gas to high-growth electricity in the UK will underpin the long-term growth outlook for the Group and enhance our role in the UK's energy transition.

And, despite our agreement to sell our Rhode Island business, we'll continue to benefit from regulatory diversification with around 40% of Group assets continuing to be in the US.

These transactions will also deliver attractive financial returns for our shareholders. We believe the fair price that we paid for WPD reflects the exciting growth opportunity and potential for continued outperformance in the future, WPD's strong cash flow and returns that will be above our cost of capital, our conservative assumptions around future regulatory returns, and the benefits we can derive and share with our customers.

In addition, we've achieved an attractive valuation for our Rhode Island business, and are confident in being able to generate a premium valuation for UK Gas Transmission, given its attractive cash flow profile and growth optionality.

On completion of these three transactions, the growth expectations for our electricity distribution will enable us to grow at our 5-7% range for longer, which, in turn, translates to superior earnings growth and stronger dividend cover, which will further underpin the recently announced updated dividend policy.

The transactions are expected to be significantly earnings accretive from Year 1 and continue to be earnings accretive post the UK Gas Transmission sale in the longer term.

We expect to deliver all three transactions whilst retaining our current credit rating.

I'd now like to spend a few minutes focusing on the main transaction we've announced of our acquisition of WPD. This is a one-off opportunity to gain a scale position in UK electricity distribution, which is expected to see a high level of asset growth as a result of the ongoing energy transition.

WPD is the UK's largest electricity distribution network operator, or DNO, with a forecasted March 2022 regulated asset base of £8.8bn, having grown by around 5% per annum over the past six years.

It's responsible for four networks across the East and West Midlands, South Wales, and South West England. Altogether, it has more than 6,500 employees, and serves nearly eight million customers.

And, in addition to its size, WPD is also one of the best-performing operators in the UK, with a fantastic track record of delivery.

Firstly, it's demonstrated a great track record of stakeholder engagement, and was the only DNO to be fast-tracked by Ofgem in the RIIO-ED1 price control.

Secondly, it's delivered very strong operational performance, with customer engagement ranked towards the top of its peers throughout the current regulatory period.

Thirdly, its financial performance is strong, consistently delivering best in class returns. And, finally, it's led by a strong and highly experienced management team.

I've known Phil Swift, WPD's CEO for many years, and look forward to working closely with him and his team to continue to deliver the great performance WPD's employees and customers have come to expect.

The integration of WPD into National Grid will bring complementary strengths to the Group as we move along the energy transition pathway.

There are four strategic benefits of the transaction for us that I particularly want to highlight. Firstly, the increasing growth of electricity, and our key role as the UK's largest transmission and distribution owner. Secondly, the improved growth outlook for the Group. Thirdly, our enhanced role in the energy transition. And then, finally, the continued benefit of geographic and regulatory diversity.

Starting with our increased electricity footprint, on completion of the transactions, nearly 70% of Group assets will be focused on electricity, up from around 60% today. That's very significant at a time when electricity demand is expected to rise substantially in the years ahead.

Across both our UK and US footprints, the coming decades will see the acceleration of renewable generation, in particular offshore wind, greater levels of decentralised generation and battery storage. We'll see enormous growth in electric vehicle

penetration, and a significant change in the way we heat our homes, with electric heating solutions growing to complement the acceleration of clean gas alternatives.

The core scenario set out by the Committee on Climate Change sees a 70% increase in UK demand by 2050, and sees demand potentially doubling under the further ambition scenario. These are in line with the scenarios set out by the National Infrastructure Commission and the future energy scenarios work, published by the Electricity System Operator.

The outlook, therefore, for both Electricity Transmission and Distribution, is extremely exciting. As the largest electricity transmission and distribution owner in the UK, we'll play a pivotal role in enabling growing levels of electrification, with investment levels and growth set to remain elevated across our networks as we look ahead through this decade and beyond, which brings me to the growth outlook.

Overall, we see these transactions materially improving the Group's long-term growth outlook given the multi-decade changes we see ahead for the electricity sector. Simply put, we're transitioning from £8bn of regulated asset base in the UK Gas Transmission and Rhode Island, to a similar-sized WPD business, but with a much stronger growth outlook.

WPD's regulated asset base has grown by around 5% per annum over the past six years, and its draft ED2 business plan expects investment levels to rise 20% from ED1 to facilitate the smarter electricity networks that will be required.

With the transactions retaining our current strong investment grade credit rating, there is sufficient headroom to take advantage of these growth opportunities as they emerge, delivering a cleaner energy system and attractive returns for our shareholders.

So, as we transition our UK business to higher growth electricity distribution with the WPD acquisition, we expect Group asset growth to be in our 5-7% range for longer.

This transaction also enhances the pivotal role we'll play in the delivery of net zero, and places National Grid at the heart of the energy transition. It will enable us to deliver a more holistic approach across the entire UK electricity sector, helping the UK's wider net zero ambitions.

An area where combining WPD within National Grid can help deliver customer and shareholder value, whilst delivering the energy transition, is around renewable connections and the development of smarter networks. There have been around 50 gigawatts of renewable generation connected to the UK electricity network to date, with over six gigawatts of renewable connections to our transmission network in RIIO-T1, and WPD already having connected 10 gigawatts of distributed generation and storage.

Together, our high and low voltage engineers will be able to share their knowledge and experience to efficiently deliver increasing levels of renewable connections, both large and small.

Another example is across EV charging infrastructure. In our Transmission business, we've worked with the UK Government on the £950m Rapid Charging Fund which will help to deliver ultrafast charging infrastructure at a national level across motorway service stations.

At the local level, WPD is looking to deliver over 200,000 charging points across its territory by 2023 as part of its roadmap to deliver enough connections by 2030 to allow up to three million EVs. This is a great example of where we'll be able to share best practice across engineering and customer solutions to help drive a more effective EV rollout.

Finally, these transactions keep the attractive geographic and regulatory diversity of the Group intact and allows the Group to capture growth opportunities as they arise across our businesses.

Whilst our sale of Rhode Island, at a very attractive valuation for shareholders, was a key differentiator in helping us to secure the WPD acquisition, it hasn't altered our US business or our strategic aims materially. For context, we still plan to invest capex of more than $4bn per year in the US.

Following closing of the Rhode Island sale, and assuming the sale of a majority stake in our UK Gas Transmission business, we still expect to have around 40% of our assets in US networks versus 50% in UK networks. This diversity brings value to our customers and to our shareholders as work alongside different regulators enables us to share best practice between rate plans.

By increasing our UK regulatory footprint with these transactions show that we continue to believe the UK will remain an attractive place to invest, with the right support to innovate, as the UK moves forward with its ambitious net zero goals. Whilst we're making a technical appeal to the CMA around the cost of equity in outperformance wedge for RIIO-T2, we believe the independence of the CMA shows the resilience of the UK Regulatory Framework.

We'll continue to work with the Government, Ofgem and all stakeholders to promote and evolve the Regulatory Framework which supports innovation, drives fair returns for our shareholders whilst delivering an energy transition for all our customers.

Although the Group will have a larger electricity exposure in future, our US Gas Distribution business leaves us well-positioned to continue to deliver strong growth. This will be driven by the need to maintain system safety and reliability as well as optionality around clean gas investments.

As a core part of the Group portfolio, it continues to underpin the delivery of our investor proposition.

And, staying with the US, I just want to spend a couple of moments talking about Rhode Island.

Today's announcement sadly signals the end of the Group's involvement in Rhode Island. It's a great business, and we'll be handing it over to a great new owner.

I'd like to take this opportunity to put on record a heartfelt thank you from me and the team to all our fantastic colleagues who have worked so hard over the years to deliver the energy needs for our customers across the state. We wish them continued success for the future when the time comes for them to transition across to PPL.

So, with that, I'll now hand over to Andy to talk through the financial details of the transactions before coming back for your questions.

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Financial Update

Andy Agg, Chief Financial Officer
Thanks, John, and good morning, everyone.

So, moving to the transaction details - in relation to WPD, the cash consideration will be £7.8bn and net debt, as at 28th February, was £6.4bn.

WPD generated profit before tax of £750m in the full year to March 2020 and has invested around £1bn of capex per annum on average throughout RIIO-ED1.

The cash contribution we'll pay for WPD will be partly funded through the sale of our Rhode Island business. PPL will pay $3.8bn for the acquisition of this business, which generated operating profit of $206m, a net income of $122m to March 2020 under US GAAP.

The sale of our Rhode Island business is conditional on the completion of the WPD acquisition, with the purchase of WPD expected to be completed ahead of the sale of Rhode Island.

The third transaction is the announcement of our intention to initiate a sale of the majority stake in our UK Gas Transmission business, including our metering business, later this year. UK Gas Transmission delivered profit before tax of £356m in the full year to March 2020. We expect to launch this process in the second half of this year.

Confirmed debt funding is in place today 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 John has already described.

The transactions are expected to be significantly earnings accretive from Year 1, and, taken together with the UK Gas Transmission sale, are expected to continue to be earnings accretive in the longer term. This will improve dividend cover, further supporting our recently announced updated dividend policy to grow the dividend in line with CPIH from our next financial year.

As John has mentioned, whilst this was a competitive process, we believe we've paid a fair price for WPD. Our valuation of the business focused on the cash flow generation we believe the assets can generate, taking into account conservative assumptions around baseline returns as well as our view on the financial benefits the transactions will bring, which will be shared with our customers, and also considering the opportunities we see to drive outperformance on totex, in particular given the strong track record of delivery

that we bring and the opportunities around incentives where WPD has a strong track record of performance.

In addition, the transaction presents a great opportunity to share best practice and drive performance improvement across our businesses, delivering benefits for our customers. As an example, in the UK, both National Grid and WPD are developing new digital platforms that will help customers connect new forms of generation to our networks more efficiently by giving them access to the right data, standardising connection design and providing a smoother, easier customer journey.

And across National Grid's US Electricity Distribution business, and WPD's UK business, we're utilising satellite imagery, data science and artificial intelligence to improve reliability and also improve customer satisfaction.

There are many examples like these of ways the businesses can continue to deliver best in class customer satisfaction levels, as WPD, in particular, has shown through ED1, as well as strong operational performance and financial returns, as both companies have delivered through RIIO-1, and this will benefit all our stakeholders.

We're comfortable that all this will drive returns above our cost of capital, leaving us well-placed to capture the growth opportunities, that John has outlined, across electricity distribution in the years ahead.

This next slide sets out the timeline for the transactions. We'll shortly be sending out the circular with the shareholder vote to be scheduled by the end of April. Alongside a required shareholder approval vote for the WPD acquisition, there are technical filings required with the FCA and its Guernsey equivalent.

The WPD transaction is not conditional on CMA approval, however we will submit a voluntary merger notification to the CMA as soon as possible. We do not anticipate competition issues and are aiming to achieve clearance at the end of Phase 1, most likely before the end of September.

We'd expect the process to take a little longer for completion of the sale of our Rhode Island business as it will require approvals from relevant US regulators. We, therefore, expect completion of Rhode Island by Q1 2022.

We'll look to launch the process for the sale of a majority stake in our UK Gas Transmission business in the second half of this year. And, as with the sale of our UK Gas Distribution business, we'd expect the process to completion to take about a year.

With that, I'll hand you back to John.

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John Pettigrew, Chief Executive Officer
Many thanks, Andy.

Taken together, these transactions give us the foundation from which to continue delivering shareholder value through both dividend and asset growth.

Together, they transform National Grid's shape and positioning, increasing our focus on electricity at a time of significant change across the sector.

They give us a one-off opportunity to establish a scale position in UK electricity distribution, and offer compelling opportunities for future growth, thereby enhancing our ability to deliver in our 5-7% asset growth range for longer. This will further underpin the dividend for the long term.

Our vision is for National Grid to be at the heart of a clean, fair and affordable energy future.

Following these transactions, National Grid will be the UK's largest electricity transmission and distribution owner, having an even greater role to play in helping the country meet its net zero target.

Thank you for listening. With that, Andy and I will be happy to take any questions you have.

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Questions and Answers

Telephone Operator
Ladies and gentlemen, as a reminder, please press *1 on your telephone keypad to ask a question.

The first question comes from Dominic Nash of Barclays. Dominic, your line is open.

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Dominic Nash, Barclays
Good morning, everyone, and congratulations on this deal, and also congratulations on keeping it under the radar so well as well.

A couple of questions from me, please.

So, first of all, the size of the premium to RAV for WPD, I think, it's around about 60%, if you could just confirm that. And, to justify that, we're going to need to have returns probably significantly above the cost of capital, as you have already said. Have you got a view of what scale of outperformance is needed, or you assume, to justify this valuation? And then, sort of, the second half of the first question this is, is that what do you think the response of Ofgem will be to this acquisition on their sort of Final Determination?

And, secondly, on the Gas Transmission sale, could you give us a clue as to what the range of a definition of a majority sale is? Is this similar to the narrative that we had around the sale of Gas Distribution, which I think also started off as a majority sale and then ended up being a complete sale? And do you think you're going to achieve a similar multiple to that as you have seen for WPD? Thank you.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Dominic.

Why don't I start by talking about how we thought about valuation. So, we don't think about it in terms of premium to RAV. I think that's overly simplistic. It doesn't really take into account things like growth and outperformance.

So, the way that we've thought about it really, is in four sort of different areas. So, firstly, as Andy said in his remarks, you know, we looked at the fundamentals of the cash flow. So, we've taken a sensible and conservative view around base returns. Given the track record that both National Grid and WPD has around outperformance, you know, we remain confident that there will be opportunities to outperform through innovation.

There will be benefits, of course, through the complementary capabilities that both National Grid and WPD will bring together.

And then, most importantly as well, is that, you know, we believe that electricity distribution - and in my remarks I talked about the growth in demand we expect to see up to 2050 - is going to drive, you know, sustainable, strong growth for many years to come.

So, all of that is fed into our sort of fundamentals of the cash flow, Dominic.

And then the second area, of course, is just the strategic opportunities. As I said in my remarks, it's going to allow us to strategically pivot to better align, I think, with the energy transition. So, we'll ultimately be 70% electricity, 30% gas. It is a unique opportunity to enter in the market at scale.

And it also maintains the balance that we like, both geographic and regulatory between the UK and the US. So, the US will be 40% networks, the UK 50%, and then the remaining 10% National Grid ventures. So, those two things are important, I think, in considering valuation.

The third area I would just emphasise is that WPD has a fantastic management team, and a great track record of operational performance, and that's an important element to consider.

And then, finally, you know, what we've announced today is three transactions, and I think you need to think about them together. So, we've also announced a significant premium and value for our shareholders in the sale of Rhode Island, and we'd expect to crystallise significant value through the sale of Gas Transmission, which remains an attractive business.

So, when we put all of that together, we felt that, you know, what we paid is a very fair price for the opportunity that it presents going forward.

In terms of the level of outperformance, I wasn't going to get into the specifics today, Dominic. As I've said, you know, given the track record of WPD and National Grid in both outperforming on short-term incentives as well as totex, you know, we would be confident that we will continue to be able to find ways to deliver for our customers sufficiently and, with that, be able to deliver outperformance.

The second part of your question, I think, was around the response from Ofgem.

So, we're not anticipating any concerns from Ofgem with regard to this acquisition. Ofgem, as you know, have always been very supportive, in the industry, of businesses adapting to the changing environment. They've also been very consistent in their views that utilities should be thinking about whole system solutions. And, of course, what we're proposing today is going to help massively as we bring those complementary capabilities together.

And then, finally, in terms of Gas Transmission, so what we are announcing today is the sale of the majority stake. So, at least 51% is what we mean by that, Dominic. And, you know, you'll be very familiar with the process that we ran for Gas Distribution, and our intention will be to run a very similar sale. 51% will be, you know, the minimum, so it allows us to deconsolidate off the balance sheet, but specifically what that number will be, you know, time will tell as we run the process.

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Dominic Nash, Barclays
Thank you.

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John Pettigrew, Chief Executive Officer
Okay. I can see that John from Royal Bank of Canada's got his hand up. So, John, do you want to ask your question?

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John Musk, RBC
Yes. Morning, everyone. Two questions from me as well.

I guess, with the Gas Transmission sale, just coming back to that, you're obviously having to sell that partly to fund WPD, obviously, partly for strategic reasons, but do you see, you know, yourselves as a forced seller on that asset? And do you think that could impact the price you may be able to achieve?

And then, secondly, in the US, again, I know it's part of the asset swap in terms of getting out of Rhode Island, but I think you've achieved a two times rate base multiple on that sale. We could argue about where your current businesses are valued in the share price, but does that not signal that perhaps you should be selling more of your US activities to create value for shareholders?

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John Pettigrew, Chief Executive Officer
John, you broke up a little bit. I think I got the gist of the questions which I'm going to ask Andy just to pick up on.

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Andy Agg, Chief Financial Officer
Yeah. Thanks, John.

So, I think your first one was around Gas Transmission, and I think you used the phrase 'forced seller'. So, no, that's not at all how we see it.

Obviously, you know, while it's a clear part of the intent that we've announced this morning, we believe it remains a very attractive asset, well-performing business, and with strong growth optionality, you know, that we've talked about at present times around, sort of, the hydrogen opportunities and other things that, you know, obviously, will bring attractive, you know, options for that business going forward.

So, no, we'll be very disciplined as we go through that process. We're confident though that it will attract, you know, a number of potential owners, and we will run through that process as you'd expect us to.

In terms of the Rhode Island question, you know, a couple of things there. Obviously, the numbers that we've reported today, as you know, with our guidance for the full year, they do represent numbers that have got sort of some COVID impacts going through them, but the rate base multiple that you mentioned is, you know, that's what the numbers demonstrate.

We were very pleased with the valuation on our Rhode Island business as well, as you said, but, no, absolutely, we remain fully committed to the US business remaining a core part of our Group, as John said earlier. The networks in the US remain around 40% today. We'll be continuing to invest, you know, over $4bn as we go forward in the remaining business. So, absolutely remains a core part of driving growth and performance for National Grid.

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John Pettigrew, Chief Executive Officer
Thanks, John.

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John Musk, RBC
Thank you.

John Pettigrew, Chief Executive Officer
I can see Chris from Morgan Stanley's got a question. Chris.

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Chris Laybutt, Morgan Stanley
Good morning, Andy. Thank you very much.

My questions would be just in terms of the net debt. The figures that you've stated, are they book value figures or have been they mark to market for the transaction? Just to give an understanding of how those figures should be treated by us.

And then I guess the real question for us is one of the arguments that the CMA has put forward for the 25 basis points of aiming up additional return, relates to attracting investment. Paying such a premium today, does this put that 25 basis points at risk, do you think?

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Chris. Why don't I ask Andy to do the first question and I'll take the second?

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Andy Agg, Chief Financial Officer
Yeah, again, I think you're asking about the WPD debt value, the £6.4bn, that's booked, absolutely. And, as you can imagine, as we go through, there will be some fair value adjustment flowing through because some of the rates on a number of those bonds, but that's the book value, yeah.

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John Pettigrew, Chief Executive Officer
Chris, in terms of the CMA, so, you know, obviously, everybody's aware that, you know, a couple of weeks ago we accepted a vast majority of the Final Determination of RIIO-T2, but we did refer to the CMA ourselves, as did the other networks, on a technical basis, the return on the cost of equity and the outperformance wedge.

You know, one of the strengths, I think, of UK regulation is that we do have an independent regulator who can look at these technical matters. And, obviously, you will have seen the decision for PR19 yesterday on the water companies.

I think I take confidence from the fact that the CMA will look at the fundamentals and will look at it in terms of long-term need for investment across these networks.

You know, we have set out our views, whether it's evidence that demonstrates that the cost of equity should be higher, if Ofgem would consider that evidence. Based on what I've read yesterday, I remain confident that it was right to make that technical appeal and that the CMA will come to the right answer as they look at RIIO-T2. And, of course, that will influence the returns that we will see in ED2 and going forward as well.

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Chris Laybutt, Morgan Stanley
Okay. Thank you. Thank you very much.

Could I just ask one follow-up, just in relation to that process that you just mentioned? Was today's transaction timed to be announced today, this week, after the CMA, deliberately, or was that just a coincidence?

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John Pettigrew, Chief Executive Officer
It's pure coincidence, Chris. I mean, you're probably aware that the CMA have changed their decision date a couple of times over the last few months, actually, so we weren't actually very clear exactly when it was going to be launched, so it is pure coincidence.

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Chris Laybutt, Morgan Stanley
Thank you. I'm sure we're going to get asked, so thank you. That's very useful.

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John Pettigrew, Chief Executive Officer
Okay. I can see there's a question from Deepa from Bernstein, so why don't we take Deepa's question?

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Deepa Venkateswaran, Bernstein
Thanks, John. I have several questions, actually.

So, firstly, for Andy, just running through some maths, I mean, firstly, do you have any expectations for the valuation of the Gas Transmission asset? Obviously, it'll be lower premium because it's gas, lower growth, etc, so one question is I wanted to try and understand how much new debt do you need to then finally raise after you -

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Andy Agg, Chief Financial Officer
So, Deepa, I think the question was to do with the expectations around Gas Transmission values. Is that right?

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Deepa Venkateswaran, Bernstein
And therefore the new net debt that you need to raise, and do you need to raise any equity hybrids? Like, could you be a bit specific on that?

And then the second question was I read that there was a lock box situation for the WPD asset. Is it similar also for Rhode Island? And, therefore, should we really be looking at the RAV as of today because, you know, you've effectively just already concluded the deal now?

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Andy Agg, Chief Financial Officer
So, I think, on the Gas Transmission, I think, as I said in answer to an earlier question, Deepa, obviously, today, we're announcing that the intent to sell, you know, obviously we believe the Gas Transmission business is an attractive asset, and, you know, we're confident that it will attract a good valuation, but I'm not going to try and speculate on what that might be. We'll obviously, you know, update on that as we go through the process.

Obviously, just be clear though, while we're intent on going through that process, I think your question then said, you know, is there any remaining debt or other issuances? And, just to be clear, as I said this morning, you know, by the time we've succeeded in completing on the Rhode Island transaction, and the majority stake in Gas Transmission, there may be a small portion of bridge that any remainder will be refinanced through either senior debt or hybrid activity in the debt markets, as I mentioned.

So, absolutely no need or intent to issue equity irrespective of the outcome of the Gas Transmission transaction.

And then the final point, I think on the lock box mechanism, yeah - So, I'm sure you're aware, so lock boxes, in the UK, are very consistent, so a well-trod route. The lock box mechanism is in place, and that runs from 1st January. But you'll see in the detail in the RNS, that there's a ticker fee to allow for the time through to completion.

In terms of the Rhode Island transaction, again, because it's in the US, it's slightly different, but there's a standard working capital mechanism in place to ensure there's a true-up for any working capital movements between now and completion as well.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Andy. Thanks, Deepa.

I can see we've got a question from Jenny from Citi. So, shall we take Jenny's question?

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Jenny Ping, Citi
Hi. Morning. Thanks very much. A couple of things.

Can I just press on trying to quantify a little bit in terms of the earnings accretion? From the wording you use, there sounds like there's a single digit, maybe even a low double-digit step up initially, but then, obviously, we've got the disposal coming through from NGG, so we may be back to where we are now, and then earnings accretion thereafter, is that sort of the right profile to think about?

Secondly, just going back to Dominic's questions initially, I'm not asking for a forecast in terms of the RORE outperformance expectation, but what has WPD actually delivered in terms of RORE outperformance? You talk about excellent management etc. What has been the run rate in terms of RORE outperformance?

And then, lastly, just on your other gas assets, clearly, you've said that you're very committed to US as a geographic area, but obviously there are still other gas assets out there. Can you just give us a bit of a feeling in terms of the direction of travel on those? Thanks.

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John Pettigrew, Chief Executive Officer
Yeah. Thanks, Jenny. Why don't I pick up the last one and I'll ask Andy to pick up on the earnings and the RORE?

So, as I said in my remarks, Jenny, so, you know, the US business remains absolutely central to our strategy, and, within that, our Gas Distribution business. So, you know, we continue to see strong organic growth in both Massachusetts and Rhode Island, which is contributing to our investor proposition.

And, if you look, you know, below the sort of headline, we're continuing to invest significantly in gas distribution in the US, both from leak-prone pipe, which, of course, is

helping to reduce leakage, for oil to gas conversions as well as - we're starting, as part of the rate filings, to look at opportunities around hydrogen, hydrogen blending and renewable natural gas as well.

So, you know, we see gas as having an important role as part of the energy transition, and we remain committed to it.

Within the UK, you know, the announcement today is to sell a majority stake, so we will continue to be investing in UK gas as well. And, of course, we also have other gas assets, as you said. So, our Grain asset is an important asset to us, and we announced, recently, Phase 4 to expand the capacity of that, and we see that as having an important role.

And we're also involved, as you know, in the net zero cluster, up in Humberside where we're looking to see the role that carbon capture and storage can have to deliver hydrogen up there as well. So, that remains a core part of our strategy going forward.

Andy.

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Andy Agg, Chief Financial Officer
Yeah, thanks.

So, going back to the first one - on earnings accretion, so, yes, as we said, you know, significantly earnings accretive. I'm not going to give a sort of, specific range on that. There's a lot of detail to work through, as you can imagine, but, as you said, while we've got the remaining years of ED1, combined with, as you say, you know, through the transaction on the National Grid Gas sale, significantly earnings accretion up front.

And then, as you say, we continue to deliver earnings accretion over the long-term as that higher growth that we've talked about, you know, many times this morning, starts to drive, you know, improved earnings as we look forward as well. So, you've got the short-term benefit and then the longer-term drive coming through from growth.

In terms of outperformance to date, as we said, I think WPD, over the life of ED1, has delivered around 9.9% RORE, so significant outperformance, predominately coming from its really strong incentive performance in terms of, you know, customer satisfaction outage response and so forth. So that's its track record.

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John Pettigrew, Chief Executive Officer
Thanks, Jenny.

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Jenny Ping, Citi
Thanks.

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John Pettigrew, Chief Executive Officer

Mark Freshney, I can see you've got your hand up. Mark.

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Mark Freshney, Credit Suisse
Hi, thank you for taking my questions. Firstly, just a question for Andy. Are there any you know, debt buyback costs? I mean presumably There's a bit of cleaning-up of the WPD debt portfolio that might need to be done. So can we expect any additional costs there?

Just secondly, picking up some of the earlier points on RORE and WPD, if I remember correctly this was the standout outperformer 2010 to 2015. When they bought the E.ON grids they did a fantastic job turning them around. But then when I looked to the RIIO-2 Annual Report, I mean they're underperforming on finance and tax and I think UK Power Networks has pulled ahead.

So what do you see - and of course the cost of debt index that they're stuck on is a big problem for the next couple of years, how do you view all of that?

And thirdly a question for you, John. I mean eight years ago after RIIO-1, you personally hosted some big events where you spoke about the opportunity to outperform, and you did. Can we expect another day once CMAs over, but once the WPD bill has completed where you can send up and layout some sort of RORE targets and practically show us what you think you can do across the UK businesses, or a combination of you and Nicola, I guess?

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John Pettigrew, Chief Executive Officer
Thanks, Mark. Why don't I let Andy pick up the first question?

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Andy Agg, Chief Financial Officer
Yeah, so Mark, thanks. Sort of on your first question, I think around are there any associated debt buyback costs or other things? The short answer to that is no, we don't expect anything significant.

Clearly, WPD as you'd expect has a varied debt book associated with it with a variety of maturity dates, and we'll look to run that through as you'd expect. And that, I'm sure, links into your second point around the go-forward cost to debt indexing that we might expect in ED2. But remember that's still at an early stage but obviously the sector specific guidance has come out.

And clearly, we would hope that as we go forward, you know, bringing our balance sheet and sort of issuance experience together with WPDs that we continue to drive some improved performance there too.

So yes, obviously we're aware of where the cost of debt index is today, but I think we'll continue to look for opportunities going forward. But no specific one-off costs that we're expecting upfront.

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John Pettigrew, Chief Executive Officer
Yeah, in terms of your other comments, Mark, one if the things I'd quite like to emphasise is that when you look at National Grid and WPD what you'll see is a really nice set of complimentary capability. So if you look at our track record in terms of delivery then National Grid's got a world class reputation for engineering and asset management, and we've been able to deliver outperformance through innovation both in our UK price controls and in our US rate filings.

Similarly when you look to WPD you'll see that their customer satisfaction and customer service has been you know, a frontier performance in the UK. And also their operational performance in terms of reliability and lost minutes has been first class.

When you put those things together and you look at the challenges that we have in the energy transition going forward where there's going to be some fundamental investment needed in both the transmission and distribution networks. I think we're very confident that bringing those capabilities together will enable us to find innovative ways to driving performance for the benefit of customers and for our shareholders.

In terms of your request, Mark, you're quite right. So, I think it was 2013 that we did that event. It is our intention actually to provide some more detail to yourselves and to the market around how we see RIIO-T2, and indeed how we'll see RIIO-ED2 as well as we go forward.

We haven't exactly decided exactly what that format will be, but it would be our intention to share some of the plans and ideas that we've as we look forward over the next five years.

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Mark Freshney, Credit Suisse
Thank you. Thank you very much.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Mark.

I'm going to move to Martin, who's got his hand up.

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Martin Young, Investec
Yeah. Good morning to everybody. Hopefully three very quick questions.

On the Gas sale when do you anticipate reclassifying the accounting treatment of this being an asset held for sale?

And then also the Gas sale, given your comments around effectively swapping out the NECO and Gas RAVs and rate basis for what you're purchasing with WPD, does that not actually suggest that over time you will fully exit the Gas business in the UK, and that the majority stake here is merely the first step?

And then getting back roughly to the beginning of the questions where Dominic asked around the premium to the RAVs, yeah, I like the way that you explained that with almost sort of building blocks. But what would be very helpful, if you could give some sort of indication of how you see the step up from RAV to 60% splitting out in value terms across the building blocks that you outlined? Thanks.

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John Pettigrew, Chief Executive Officer
Okay. Thanks, Martin. Let me take the second one first and I'll ask Andy to pick up on the first and the third.

So as I said in my remarks actually, the only decision that we've taken today is to sell a majority stake in our Gas Transmission business. We've taken no other decisions, as I said, we've got important Gas business in Isle of Grain and we're considering to explore opportunities in other areas, and we intend to hold a minority stake in Gas Transmission.

You know, we do very strongly feel that Gas has got an important role to play in the energy transition over many decades to come, both supporting electricity generation as well as supporting Heat both domestically and businesswise. And we are continuing to explore optionality for Gas Transmission in areas like hydrogen and renewable natural gas.

You would have seen in The Times this morning quite a big article about our thoughts about the repurposing of Gas Transmission for hydrogen, which we think is an interesting optionality opportunity for us.

So the decision today is to sell a majority stake. As I said, it allows us to shift the overall portfolio to one that I think better aligns with the overall energy transition with 70% being Electric and 30% Gas, and at the same time it maintains the geographic and regulatory diversity that we enjoy with 40% our network assets being in the US and 50% of our network assets being in the UK.

Andy, why don't you pick up the first and third?

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Andy Agg, Chief Financial Officer
Yeah, thanks. So on the first one, Martin, I mean it's probably behind your question but you're probably aware the accounting rules around exactly the point at which you trigger a held for sale or discontinued ops are quite complex. It's not just intent, you have to look at ability, readiness, etc. So we'd expect that point to be reached sometime through the back half of 2021 calendar year, but we'll obviously confirm that precisely when we get there.

In terms of the third one, just coming back to your point around the RAV multiple, you know, I don't want to repeat everything John said in terms of how we're thinking about this. But again, I'm not going to try and get granular around how much we attribute to different elements, but I think you do come back to the importance of growth here.

And one of the reasons we wanted to show the RAV multiples or the RAV numbers as you look forward to the years ahead is you would expect absolutely that growth value,

accretive growth to effectively erode that multiple over time and relatively quickly because of the size of that growth.

Obviously, the outperformance. Again, we will look to target across these businesses. But I think it's also important that you think about those multiples in the context of the other transactions that we've announced and the very sort of attractive crystallisation of value that we've been able to achieve on Rhode Island and that we'll be looking to achieve on Gas Transmission, and our ability to therefore redeploy that into the new business which will allow us to continue to grow for many years ahead. So that's how we're thinking about it.

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John Pettigrew, Chief Executive Officer
James from Deutsche, I think you've got question?

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James Brand, Deutsche Bank
Yes, hello. Congratulations from me on the deal. I have three hopefully quick questions.

The first is just on synergy as you've highlighted the strategic synergies, you haven't talked about financial synergies. I'm assuming because there probably aren't really any but just to confirm that you're going to be keeping the overall size of the business the same, whether there are any financial synergies or not and put two Electricity businesses together in the UK?

The second question, could you tell us the cost of debt for WPDs debt portfolio?

And then thirdly, just on D&A, when you say that you're expecting a deal to be earnings accretive when you're doing your calculations, how are you taking into the account PPA? Because I'd imagine that there might be significant PPA kind of D&A associated with this deal. Are your calculations kind of including anything for that?

And then the second part of that question, so I guess this one isn't a short one, but there have been views in the past that some of the accounting at WPD is quite aggressive in terms of very long depreciation lives. Maybe that's a misperception but I was wondering whether you could comment on whether you're anticipating combining the accounting policies there a bit more with your existing business or not? Thanks.

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John Pettigrew, Chief Executive Officer
Okay thanks, James. Let me just pick up on synergies and I'll ask Andy to pick up on the cost of debt and the accretion question.

I mean in terms of synergies; we weren't today planning on going through sort of a detailed breakdown of the elements that we believe make up why the announcement today we believe is fair value.

As I set out earlier, we do believe that there are complementary capabilities between National Grid and that will help us drive outperformance and over time we will continue to work through that.

But today you know, what we're really announcing is that the acquisition of WPD will not only be earnings accretive in Year 1 but going forward, but also will drive stronger longer and more certain growth for many, many decades to come.

So with that, Andy, why don't you pick up on the ...

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Andy Agg, Chief Financial Officer
Yeah, and James, apologies, you broke about - I think your question was around the cost of debt performance for WPD in the period ...

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James Brand, Deutsche Bank
Just the cost of debt. Just the actual current cost of debt for WPD that you've assumed.

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Andy Agg, Chief Financial Officer
Okay, but I think whereas if you look at where they are at the moment, I think they're consistent with where they've been throughout ED1, which is a slight underperformance on their sort of financing and tax against their regulatory allowances.

I think if I go back to the previous question or one of the earlier questions, I think given where the index is coming out, we wouldn't anticipate that changing significantly overnight.

But as I say, as we look forward in bringing the two businesses together, I think we'll continue to seek opportunities to look for opportunity in that space. But I would expect that their level of debt performance will continue pretty much in line with what we've seen previously.

In terms of the PPAs and accounting, so certainly as you'd imagine at this stage of a big public deal with diligence, that's normal. Of course we've looked at a high-level impact of purchase price accounting.

And also the other part of your question around their existing accounting policies, and we've taken that into account in our comments this morning around expectations around accretion.

As you can imagine, as we go through the actual completion of the acquisition a huge amount more work will take. But I think that where we are today, we're comfortable that we've taken those impacts into account, but obviously much more details to come down the track.

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James Brand, Deutsche Bank

Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, James. Sam from UBS, I think you've got your hand up.

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Sam Arie, UBS
Hi. Yes, I have. Good morning everybody. Thanks for this call and your Q&A. I'm kind of down to the end of the line, I think. But I've got a lot of small questions if you don't mind me running through a few.

They're probably very quick answers.

On your Page 16 in the slides, which was very helpful, I just wondered first if you could give us EBITDA of the three pieces as well?

Shall I go one at a time and let you answer?

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John Pettigrew, Chief Executive Officer
Why don't you run through your questions, Sam? And then we'll pick them up.

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Sam Arie, UBS
Okay, that's the first one.

Secondly, on the credit rating, I just wanted to check I understood what you said on this because just a couple of weeks ago, you were talking about a sort of warning on a downgrade. And I think I'm hearing saying that you're sort of withdrawing that warning now, but I just wanted to make sure I've properly understood what you said on the Group credit rating.

And I guess also just to check is that based on your view or have the rating agencies been crossed over in some way and been able to do this already and give you any reassurance? And that's the second one.

The third one is can you just, again, I'm sorry if you've said this somehow but I think I missed it. Have you said what is the allowed ROE that you're assuming in the central case on WPD?

And it would also be helpful if you could just remind us what's the latest you know the ROE and the latest Rhode Island rate case as well.

And then the last one is on the growth. You've talked a lot about the growth, and I get that. I understand why the electric side is kind of interesting and exciting for growth. I think you're not changing your 5% to 7% outlook. So then you said you might be able to do 5% to 7% for longer than before. But can you just help us understand, so when

would that have run out without this transaction? And so when does the benefit of this transaction start to be felt on the growth rate?

Thank you. I think that's the end of my list.

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John Pettigrew, Chief Executive Officer
Okay, thanks Sam. Let me pick up on the second two and I'll ask Andy to pick up on the first.

So in terms of the assumption of allowed return. So as I said earlier what we've done is taken I think a conservative and sensible view about what the allowed returns will be. Clearly, that's been informed by our experiences in RIIO-T1, the thoughts that we have as part of the CMA referral and the decision that came out yesterday, as well as our understanding of the relative risk between Distribution and Transmission. So we've taken a long term and sensible and prudent view of that base return, and similarly on outperformance.

In terms of Rhode Island the allowed returns are around about 9.3%, so that's the number for that.

In terms of growth it's probably worth me just sort of reiterating the point that I made earlier. So you know, one of the reasons that we do see this is as a strategic pivot is that as we look at the energy transition, and in particular Electricity, whichever scenario study you see, the expectation is we're going to see significant growth in demand.

So I've referenced a few of my remarks in terms of the Climate Change Committee which is potentially between 70% and 100%. I think the National Infrastructure Commission has talked about that doubling of demand by 2050. And at the same time that's going to require significant investment in Electricity Distribution, both to support distributed generation, the roll-out of EVs as well as potentially an increased role for electric in heating as well.

So, we see it as very much a not just the next few years but a multidecade need for investment to support the energy transition that's going on.

In terms of our current guidance, we talk about 5% to 7% and my key message today is we expect that growth to be stronger, more certain and more sustainable going forward as we move forward with this transaction.

Andy?

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Andy Agg, Chief Financial Officer
Yeah, thanks. So if I pick up, I think, the first two. So on the EBITDA question, Sam. So the WPD EBITDA is actually shown on Slide 7 of the deck, so it's around £1.2bn for FY20.

I'll get the team to come back to you offline on the other EBITDA numbers for the other businesses involved.

In terms of the credit rating just to be clear, so as you say, so just over two weeks ago when we announced our RIIO decision and the associated financing strategy that we were adopting, I think we said back then we were anticipating action. And we did see that action from all three agencies, effectively moving us down a notch to, so we said this morning, so the Baa2 and BBB flat at a Hold Co.

So what we've said this morning is effectively this series of transactions and planned transactions ensure that the metrics will remain in-line with those new thresholds. So we're not expecting any further change, but just to be clear the agencies have moved since our announcement just a couple of weeks ago.

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John Pettigrew, Chief Executive Officer
Thanks, Sam.

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Sam Arie, UBS
All right, that's very helpful. Thank you.

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John Pettigrew, Chief Executive Officer
Laura, I can see you've got your hand up.

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Laura, Analyst
Good morning. Thanks for taking the question.

Just with regards to the Gas Transmission asset sale can you give any clarity on whether the debt level travels to the new owner or how will that be treated?

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John Pettigrew, Chief Executive Officer
Thanks, Laura. I'll let Andy pick that on up.

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Andy Agg, Chief Financial Officer
Yeah, thanks. So as we said this morning, the intent would be that we would look to sell our majority stake in the National Grid Gas Plc. business, and the debt is therefore, you know, the operating company debt is held within that entity. So absolutely we'd anticipate that the Op Co debt would be included in that transaction.

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Laura, Analyst
Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, Laura. Ahmed from Jefferies, I think you've got your hand up?

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Ahmed Farman, Jefferies
Yes. Morning. Thank you for taking my questions. A few more from my side.

I just wanted to ask if you could talk a little about the impact of the transaction on the cash, the free cash flow. Do you see the accretion there to be similar to how you sort of highlighted accretion on the EPS side?

And then if that's, if we could take that a little bit further and talk a little bit more specific on what does it mean for the key credit metrics? Any granularity on how accretive or not they are this transaction would be very helpful.

And secondly, just to check, you haven't talked about any sort of capex and cost synergies within the UK as a result of this transaction. How do you see that?

I just also wanted to confirm, I think you made a comment earlier in response to one of the questions that the EV to RAV ratio for the US disposal is two times. I don't know if that was your statement?

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John Pettigrew, Chief Executive Officer
Okay thanks, Ahmed. Let me just pick on the capex question and I'll let Andy pick up on the accretion and credit metrics.

So in terms of capex if you look at over ED1 then WPD's had significant investment. What we're expecting to see based on their draft business plan, obviously that will evolve a bit over the next 12 months as they go through the process with Ofgem. In their draft business plan they're talking about a 20% increase, so that's around about £1bn per annum of capex.

So from a Group perspective currently we're spending around about £5bn a year, so that would increase to you know, somewhat higher to about £6bn a year depending on where they get to with their business plan and the process with Ofgem. So quite a significant setup.

Andy?

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Andy Agg, Chief Financial Officer
Yeah, so thanks. I mean on cash flows, in terms of underlying operating cash flow, we would anticipate that that would reflect the earnings accretion that we've talked about.

But as you've said, accompanied with that is potentially higher levels of capex and therefore as we said this morning, we would expect our overall credit metrics, the RCF on the Moody's side and FFO metrics on S&P would draw up two key ones to continue to track in line with the new bands.

So not a significant movement from where we were expecting to be but stay comfortably within the 7-9% and the 10-13%, which are new bands that we're at.

In terms of the Rhode Island figures yes, and just to be clear, and it's in the statement that we've put out this morning, so the rate base is $2.6bn combined T&D. The $3.8bn of equity value plus around $1.4bn of associated debt gives you the $5.2bn of total EV.

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Ahmed Farman, Jefferies
Thank you.

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John Pettigrew, Chief Executive Officer
Thank you, Ahmed. Javier from JP Morgan, I think you've got your hand up?

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Javier Garrido, JP Morgan
Yeah, thank you very much. Yes, I have one question. It's on the debt of WPD. And do you expect to keep leverage in terms of net debt to RAV at around 75% or do you plan to get some equity in there to bring the business in-line with a notional gearing over time?

Thank you.

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Andy Agg, Chief Financial Officer
Yeah, so again, I think I heard most of it, Javier. I think you are saying that WPD today is geared slightly higher than the notional gearing.

I think as I said earlier, over time obviously we'll bring that overall debt book into our own. As you know, our approach is to run our operating companies broadly in-line with notional regulated gearing, both UK and US. But obviously then have additional Hold Co debt. So the exact mix of the book going forward we'll work through, but that philosophy, we're not expecting that to change.

But as I said in answer to one of the earlier questions, equally we're not planning sort of any immediate debt management or liability management to bring debt levels down. So that will flow through into our overall leverage on the completion of the acquisition.

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John Pettigrew, Chief Executive Officer
Thanks, Javier. John of Royal Bank of Canada, have you got your hand up?

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John Musk, RBC
Yeah. Just one quick follow-up, very quick.

The bridge financing, can you give some indication on the likely cost of that versus your existing debt?

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Andy Agg, Chief Financial Officer
Yeah, so as you can imagine, John, bridge financing is always slightly higher than normal sort of existing debt. But given the nature of these transactions with a need to fund-certain effectively ahead of completion, that's why we've taken that route. And effectively the pricing will also take into account the takeout route which in this case as we said this morning is intended to be predominantly through the proceeds from Rhode Island and then from Gas Transmission.

So you would expect it to be slightly higher but obviously, it's the short-term instrument which will be repaid within 12 to 15 months.

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John Pettigrew, Chief Executive Officer
Thanks, John. Deepa, I think you've got your hand up as well, again.

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Deepa Venkateswaran, Bernstein
Thanks. John, I had two follow-up questions for you. One is just looking at the valuation. So even if I take into account that you have got a fantastic valuation on the US it still leaves a rather chunky premium and depending on whether you take this year or next year's RAV, but somewhere between 50 to 60 net.

And then when I put that in the context of your current valuation where barely you're getting any premium at all through your UK assets, that seems like a very big disconnect. So is the market undervaluing your UK assets or are the WPD assets so attractive? I mean that was my question one.

And I suppose the other pivot you could have done is go more towards the US. I mean certainly the US 9% ROE looks very attractive in the context of the UKs returns even if the CMA pushes it up.

So it was a bit surprising that you've pivoted back a little bit more towards the UK. So perhaps that UK, US political risk and return balance, maybe you could explain your logic. Thanks.

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John Pettigrew, Chief Executive Officer
Yeah thanks, Deepa. I'm going to pick up on the second question and I'll ask Andy to pick up on the first.

So in terms of the announcements that we've made today the strategic pivot that we're making is to increase our exposure to Electricity to move from 60% to 70%.

We did see a unique opportunity with WPD to be able to enter Electricity Distribution at scale and in doing that we believe it will deliver stronger growth, more certain growth for longer going forward given, as I've said, we see very strong demand growth in Electricity.

In terms of the overall shape of the Group it leaves us, I think, in a very nice position in that we're to some extent 70% Electricity, 30% Gas, which I think aligns with how we see the energy transition playing out. And at the same time it also leaves us very nicely balanced in terms of geographic and regulatory diversity, which as you know, we think creates real value.

So we are able to share best practice and learn from regulatory agreements in the UK and in the US. And as a result of these transactions that leaves us in a position where we're 40% US networks, 50% UK.

So overall, I think a strategic pivot that increases our exposure to Electricity, strengthens our underlying growth which underpins the dividend at a time when there is a unique opportunity to enter Electricity Distribution at scale, which doesn't happen very often, is why we've made the announcement on the transactions today.

Andy, do you want to pick up on the -

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Andy Agg, Chief Financial Officer
Yeah. So Deepa, again I think it sort of links back to some of the comments we've made already this morning, which is unfortunately our businesses do get looked at through a RAV multiple lens, but I think sometimes those don't represent the fundamentals of the businesses that we're running. And in this case, we think that's very true of WPD in terms of the fair value that we believe we're paying for it.

Your point about that being reflected in the share price, you've probably heard us say before, it's maybe frustrating that the market isn't recognising those fundamental values at the moment. And I think your own consensus in terms of the sell side would recognise that you know, a slightly higher multiple on UK assets may be appropriate.

So, I think, I acknowledge the point, but we believe the fundamental values particularly with the three transactions taken together mean that we're confident that the value we're paying is an appropriate one.

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Deepa Venkateswaran, Bernstein
Thank you.

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John Pettigrew, Chief Executive Officer
Thanks, Deepa.

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Deepa Venkateswaran, Bernstein

One follow-up. Can I ask a follow-up just on the percentages that you gave, 50%, 40% etc. Is that RAV rate based, is that earnings growth and what percentage are you assuming that Gas Transmission is sold down?

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John Pettigrew, Chief Executive Officer
Yeah, so it's on an asset base, a regulated asset base and it's an assumption of 51% sale of Gas Transmission. So just at the minimum of the majority stake, Deepa.

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Deepa Venkateswaran, Bernstein
Okay, thank you so much.

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John Pettigrew, Chief Executive Officer
Okay, Dominic, I think you've got your hand up again. So do you want to ask your question?

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Dominic Nash, Barclays
Hi there, yes, thank you. Two quite quick ones.

Firstly the £6.4bn of debt that's coming with WPD, are there any derivative monies in that like interest rate out - the money that you've included or is that an underlying debt number?

And secondly, you've peaked my interest a bit about the restructuring of the RAV businesses when you combine Transmission with Distribution. Do you think that you could end up with a reorganisation of say your high-voltage Electricity Distribution and could that we could see a Transmission RAV via the 132kv lines and have a look at the world in quite a different way? Or do you think there has to be regulatory recompense as we see today in perpetuity?

Thank you.

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John Pettigrew, Chief Executive Officer
Do you want to take the debt point?

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Andy Agg, Chief Financial Officer
Yeah Dominic, on the debt point, yes, they have as you can imagine index linked that within their portfolio as well as that they do take other sort of derivative items involved. And obviously we'll be working through that in terms of the fair value exercise when we work through that. But as I say, there's nothing that we're significantly aware of.

But linking back to the earlier questions as well around their performance of cost, going to cost debt allowance, and I think that we do see more opportunity in the long term as we work through that debt book.

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Dominic Nash, Barclays
Okay, so the £6.4bn is the £6.4bn, there isn't like £400m of a derivative that you've added to that. That's what I'm just clarity on.

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Andy Agg, Chief Financial Officer
Sorry, so the £6.4bn, no. That's effectively their existing book before any action or involvement that we might have.

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Dominic Nash, Barclays
Great, thanks.

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John Pettigrew, Chief Executive Officer
Dominic, the line's not great. I think I've picked up the sort of core of your question which was around restructuring.

My expectation is very much like Gas Distribution and Gas Transmission, which is certainly currently in the current regulatory framework, and as I say going forward over the next few years then the WPD business will be operated as a Distribution business distinct from Transmission.

However, as I've said as we think increasingly as an industry about whole system solutions, we do think there are opportunities to actually bring the complementary skills together, to develop propositions for customers which are going to be more effective.

So for example, the opportunity to look at where to connect generation, whether it's large or small. Things like EVs for example, so as you know, National Grid's been spending a lot of time looking at how to build and ultra-fast charging network at the macro-transmission level, but at the same time distribution companies are looking to increase the number of charging points to support the rollout of EVs.

Being able to look at those things more holistically, I think will create opportunities. Whether there'll be more structural changes in the industry as we move forward over the - as part of the energy transition time will tell. But we've not built any of that into our assessment of fair value today.

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Dominic Nash, Barclays
Great. Thank you.

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John Pettigrew, Chief Executive Officer
Mark, I think this is the last question so do you want to ask your question?

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Mark Freshney, Credit Suisse
Yeah, so I guess a couple of things. Firstly, Andy, on Gas Transmission can we expect you to look into putting in a mid-co-structure and potentially doing an opportunistic refinancing in the next year or so to try and maximise proceeds from any sale?

And secondly, sort of like holistically, if I think about the statement you made a couple of weeks ago on laying out a new dividend policy linked to CPIH, is it fair to say that you firmly believe that everything you've announced today works towards making that dividend more sustainable than being able to grow it for a much, much longer period of time?

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Andy Agg, Chief Financial Officer
Thanks, Mark. On the first, the debt restructuring point, I guess you're referring back to what we did with the Gas Distribution sale a few years ago where effectively as part of that process, we identified that a number of the bidders were interested in that type of structure and it worked for them and we were able to put it in place for the buyers.

It's very early days as we've said this morning. Clearly, those options are available, but again, it'll be - it will emerge as we go through the process and we understand what the process is looking like, what the potential buyers are interested in. But certainly those options are available to us if we go down that route.

In terms of the dividend, I mean you're absolutely right. So we announced the new policy two to three weeks ago in line with the existing business. And the sequence of transactions that we've announced this morning contribute further underpin to that both today in terms of the accretion but also John said a number of times, the more transparent and increasing certainty of the growth that we now see going forward, we believe further underpins the confidence around that dividend policy and for longer as well, as you say. So absolutely.

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John Pettigrew, Chief Executive Officer
Thank you, Mark. So thank you for the questions. Let me just finish by just summarising.

So today, we strongly believe that we've announced a significant strategic pivot which not only is going to allow us to play a much larger role in the UK energy transition, but as you've just heard from Andy, it's going to support our investor proposition going forward with more sustainable and longer-term growth, which of course will underpin the dividend.

So again, thank you for your questions and I look forward to seeing you all soon.

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nationalgrid



Proposed acquisition of **Western Power Distribution** and **Strategic Portfolio Repositioning**

London, 18 March 2021

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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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 proposals relating to the RIIO-2 price controls as well as increased economic uncertainty resulting from COVID-19; 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; 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 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. In relation to the Transactions these forward-looking statements will be qualified by the risk factors described in Part II (Risk Factors) of the shareholder circular which is expected to be published shortly. 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.

nationalgrid



John Pettigrew

Chief Executive

nationalgrid

Transforming our business, leading the energy transition

Our priorities

- Deliver for our customers efficiently
- Grow organisational capabilities
- Empower our people for great performance
- Enable the energy transition for all



to be at the heart of
a clean, fair and affordable energy future

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A strategic transformation

- Significantly improves strategic positioning and long term growth
- Puts National Grid at the heart of delivering net zero
- Attractive financial returns for shareholders

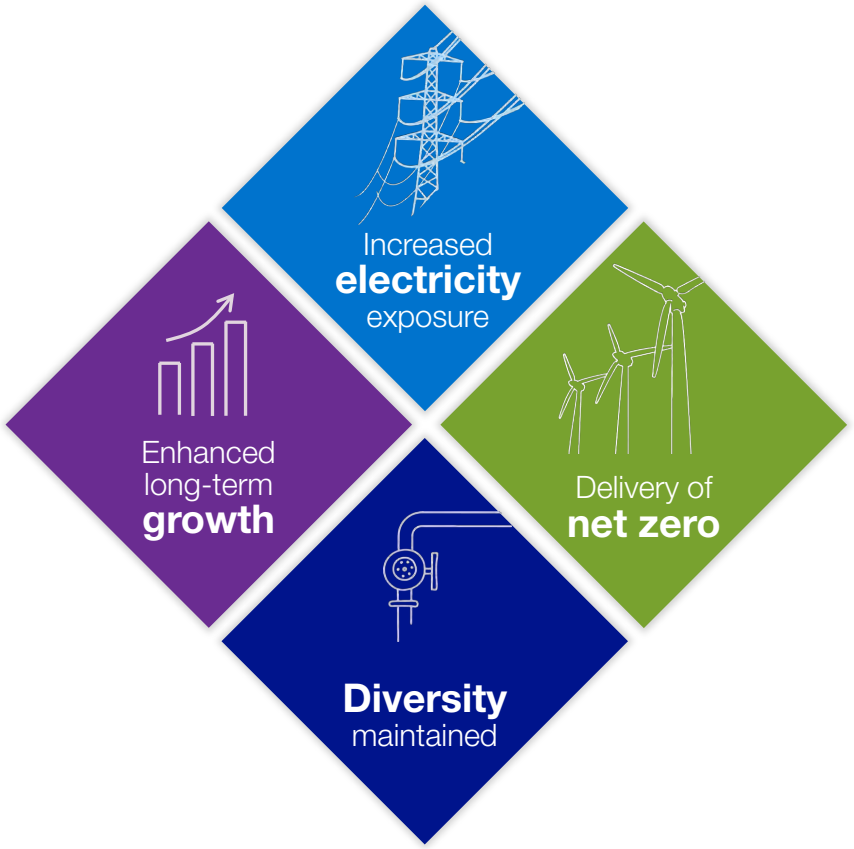
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Transformative strategic fit

- Combined transaction agreed with PPL Corporation:
  - Acquisition of **Western Power Distribution** (WPD) for equity value of £7.8bn
    - UK's largest electricity distribution network operator
  - Sale of our **Rhode Island** business for equity value of $3.8bn (£2.7bn[1])
- Announcing an intention to sell a majority stake in our **UK Gas Transmission** business
- Two **complementary** businesses – a compelling combination

  WPD
  - Low cost and local delivery strength
  - Customer focus and strong operational performance

  National Grid
  - Engineering expertise
  - Experience in modernising electricity distribution networks



1. Assumed GBP/USD FX rate of 1.39.

Accretive earnings and stable credit metrics

Attractive financial returns for shareholders

- Strong growth profile of WPD and potential for outperformance
- Expected strong cash flow and returns greater than cost of capital
- Valuation of WPD based on conservative assumptions for future regulatory returns
- Achieved premium valuation for Rhode Island business
- Confidence in value of UK Gas Transmission business

Following completion of three deals

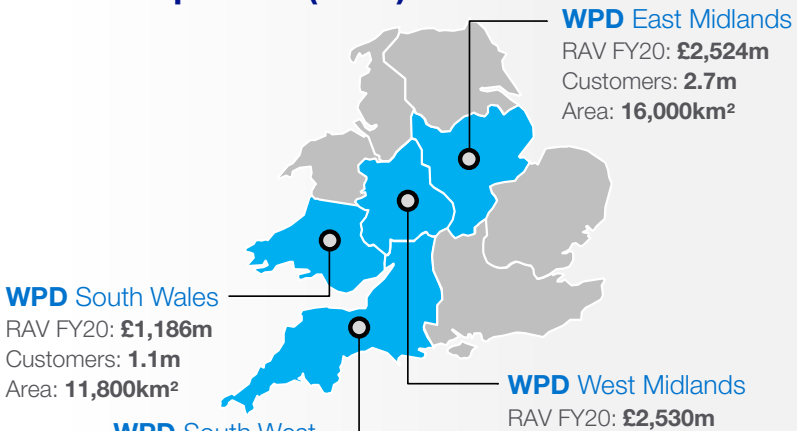
- Superior growth opportunity - enabling 5-7% range for longer
- Improves earnings growth and dividend cover
- Further underpins recently updated dividend policy
- Earnings accretive
- Expect metrics to remain consistent with current ratings

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WPD business summary

One-off opportunity to gain a scale position in UK electricity distribution

UK's largest electricity distribution network operator (DNO)



Network comprises
~90,000 km of overhead lines
~135,000 km of underground cable
188,000 transformers

Key highlights

£8.8bn
Estimated RAV
FY2022

5%
Annual RAV CAGR[1]
delivered for ED1 period

6,500
Employees

7.9million
Customers

Key financials

£m	FY18	FY19	FY20
Revenue	1,621	1,686	1,724
EBITDA	1,168	1,193	1,241
Net Income	586	605	549
RAV	7,355	7,698	8,000

1. Regulated asset base compound annual growth rate based on Ofgem publication.

WPD a leading Distribution Network Operator

Strong regulatory track record with Ofgem
fast tracked during RIIO-ED1

9.9%
RoRE operational performance
over ED1 to date[1]

Leading
customer satisfaction

Highly experienced
management team



1. Cumulative Return on Regulatory Equity for the RIIO ED1 regulatory years up to and including 2019/20, using 65% notional gearing; before debt and tax performance
2. Ofgem RIIO-ED1 Network Performance Summary 2019-20

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A strong strategic fit

Strong electricity demand growth



Improved growth outlook



Net zero delivery



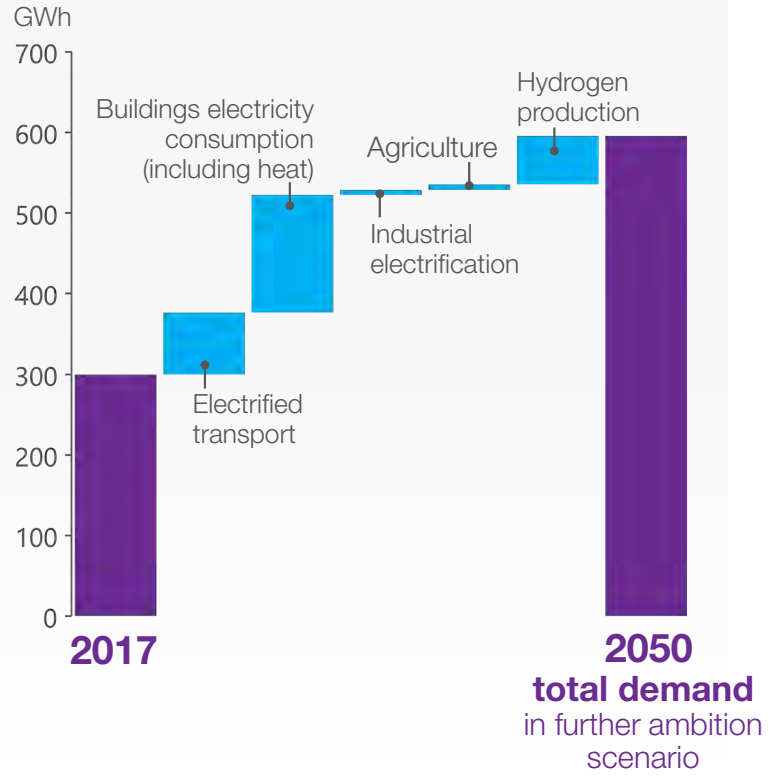
Benefits of diversity maintained



Increases electricity footprint

- A changing energy landscape
  - Increased renewable generation
  - Growth in electric vehicle penetration
  - Electric heating solutions for homes, offices and buildings
- Electricity demand potentially doubles by 2050
- National Grid positioned to play a pivotal role in enable growing role of electricity

UK electricity demand growth[1]



1. **Source:** Committee on Climate Change, Net Zero Technical Report, May 2019

An improved growth outlook

WPD brings high quality assets with attractive growth

c.5% RAV CAGR[1] over 6 years

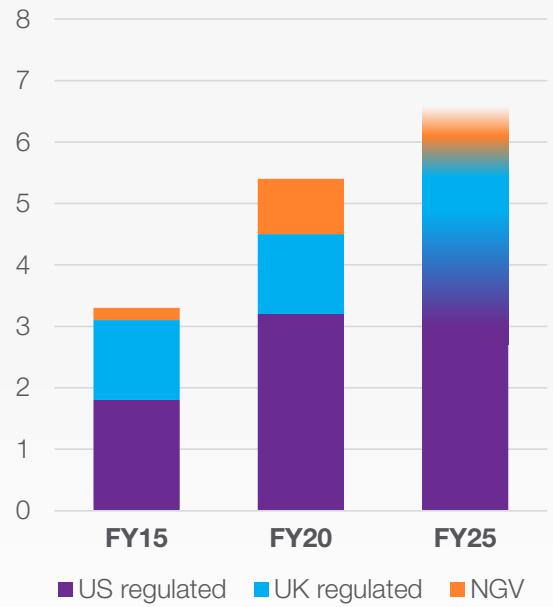
Delivering a cleaner, smarter energy system

Investment expected to rise
c.20% from ED1 to ED2

5-7%

Group asset growth underpinned

Capital investment by segment[2] (£bn)



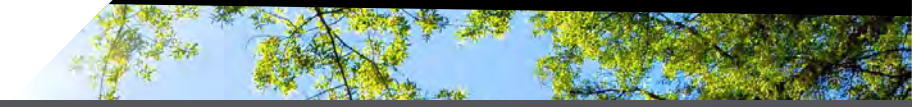
1. Regulated asset base compound annual growth rate
2. FY25 illustrative only. Assumes illustrative 51% disposal of UK Gas Transmission and divestment of Rhode Island

Delivering net zero

A holistic approach

- Faster more efficient delivery across transmission and distribution
- Smarter networks to deliver more renewable energy connections
- Electric vehicle charging infrastructure
  - National: £950m Rapid Charging Fund
  - Local: Enable up to 3m electric vehicles by 2030
- Sharing best practice
  - Engineering solutions
  - Customer solutions

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A shared vision to reduce own emissions

National Grid

80% reduction
in own emissions by 2030

90% by 2040

Net zero by 2050

25% CO_2 emissions reduction
FY15/16 to FY19/20[1]

WPD

- Net zero aims in ED2 business plan
- 20% emissions reduction in ED1 to date

1. National Grid ESG Virtual Seminar, October 2020



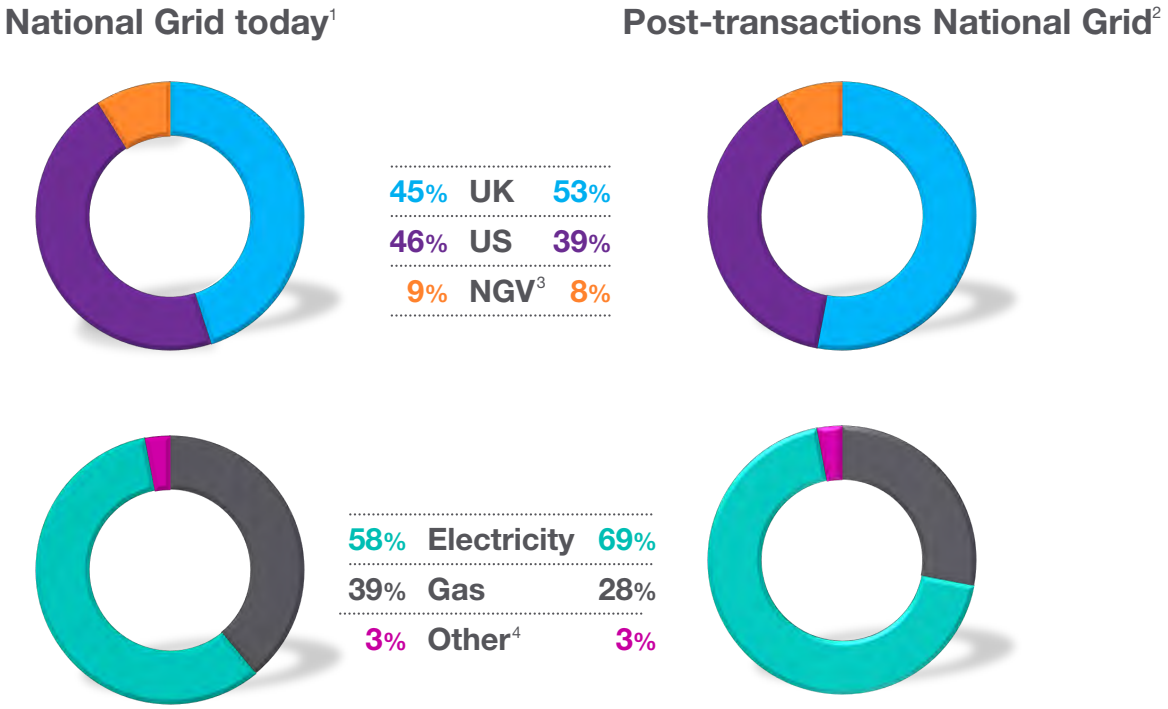
Electricity-oriented portfolio with regulatory diversity

National Grid remains geographically balanced

with the US regulatory assets
c.40% of the Group

Step-change in electricity's portfolio contribution

to be
c.70% of the Group



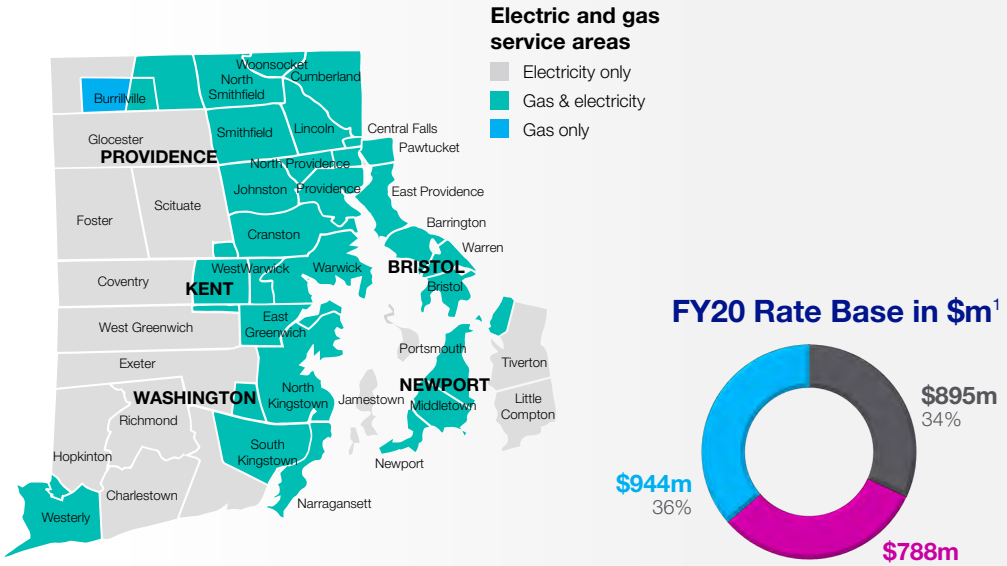
1. Proportion of FY2020 asset base
2. Calculated as proportion of FY20 asset base basis, assuming illustrative 51% disposal of UK Gas Transmission
3. National Grid Ventures and Other
4. Includes US Service Co, NG Partners, Property and UK Other Assets (Corporate).

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Rhode Island business summary

Divestment does not materially change National Grid US asset mix or growth

Geographic footprint



506,000 electric customers
273,000 gas customers
>700 employees

FY20 Rate Base in $m[1]

Key highlights

- Largest electricity transmission & distribution service provider as well as a natural gas distribution company in Rhode Island
- Electric and gas distribution business regulated by Rhode Island Public Utilities Commission; electric transmission business regulated by the FERC
- $2.6bn rate base ($1.8bn distribution, $788m transmission) as at March 2020
- Net debt of $1.4bn (£1.0bn) as at 31 March 2020

Key financials[1]

£m	FY18	FY19	FY20
Revenue	1, 063	1,188	1,207
Net Income	91	84	95
Rate Base	1,576	1,854	2,119

1. Company Information, US GAAP, £m at an average FX rate of $1.36/1.31/1.29 for FY18/FY19/FY20 Revenue and Net Income and $1.40/1.30/1.24 for Rate Base

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Andy Agg

Chief Financial Officer

Transaction details

WPD

£7.8bn equity value[1]

£6.4bn assumed net debt

- **£8.8bn** March 2022 RAVe[2]
- Attractive growth profile
- **£750m** FY20 profit before tax
- **£1bn** average annual capex over RIIO-ED1

Rhode Island

£2.7bn consideration[1]

£1.0bn ($1.4bn) assumed net debt[1]

- Partially repays cost of acquiring WPD
- Attractive valuation
- FY20
  - **$206m** operating profit[3]
  - **$122m** net profit[3]

UK Gas Transmission

£6.4bn March 2022 RAVe[2]

- Intention to sell majority interest, including gas metering
- **£356m** FY20 profit before tax[4]
- Plan to launch a sale in 2H 2021

1. Assumed GBP/USD FX rate of 1.39 and subject to customary closing adjustments
2. RAVe: estimated regulated asset value
3. US GAAP basis
4. National Grid Gas plc

Financial impact

Financing

- Bridge facility in place to fully cover WPD purchase
- Proceeds from Rhode Island and UK Gas Transmission businesses to repay bridge facility[1]
- UK Gas Transmission sale process expected to be launched in second half 2021

Portfolio

- Earnings accretive
- Expect to maintain current credit rating

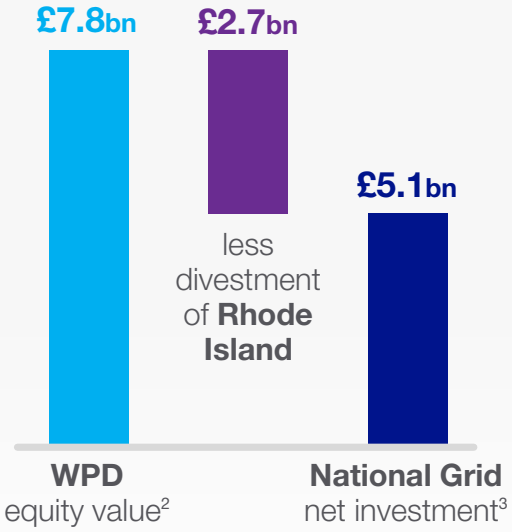
Dividend

- Dividend cover metrics enhanced
- Further underpins updated CPIH-linked dividend policy

1. Any remainder to be refinanced with new debt

Funding overview (equity basis)

National Grid Contribution



2. Subject to customary closing adjustments
3. Rhode Island is conditional upon WPD completing, but WPD is not conditional on Rhode Island completing

Delivering further value for shareholders

Further significant upside potential

Valuation of WPD reflects

- Conservative assumptions on baseline returns

Further upside potential

- Opportunities to drive outperformance on totex
  - Strong track record of delivery
- Opportunities on incentives

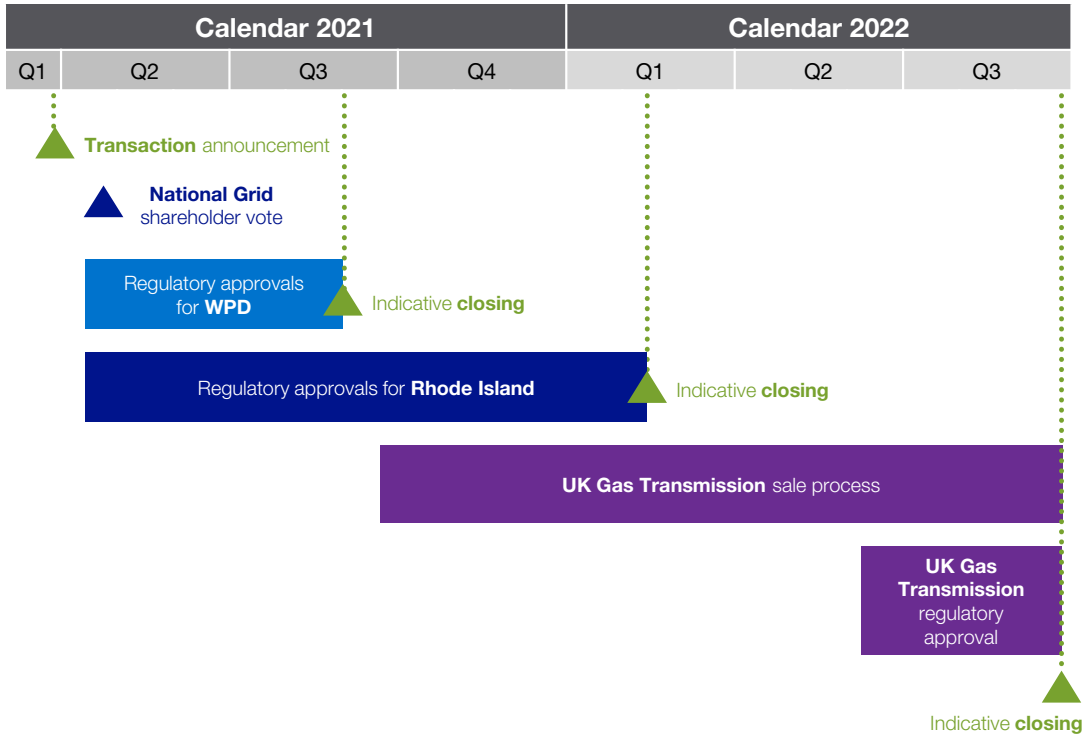
Sharing best practice to drive performance

- Digital innovation
  - Streamline connection process
  - Improve asset reliability
- Leading customer satisfaction



Timetable and regulatory considerations

Overall timeline summary



Timing of key steps

WPD

- Shareholder meeting to approve acquisition of WPD expected by the end of April 2021
- Technical filings to be submitted with FCA and Guernsey equivalent
- Voluntary CMA filing
- Expected to complete within the next four months

Rhode Island

- Relevant regulatory approvals required
- Expected to complete in Q1 2022

UK Gas Transmission

- Intention to launch process for sale of a majority stake in Q3 2021
- Expect process to completion will take c.12 months

Conclusion

Transforms National Grid's strategic position

- Increased focus on electricity
- One-off opportunity to establish scale UK Electricity Distribution
- Enhances 5-7% growth for longer

Foundation for growth and shareholder returns

- Earnings accretive
- Expect to maintain current credit rating
- Further underpins dividend policy and long-term sustainability

Geographic and regulatory diversity maintained



Puts **National Grid** at the heart of a clean, fair and affordable energy future

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Q&A

To ask a question, please dial in as below

United Kingdom (Local) **020 3936 2999**
United Kingdom (Toll Free) **0800 640 6441**
United States (Local) **1 646 664 1960**
All other locations **+44 20 3936 2999**

Participant Access Code: **946437**

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Project Cable

Rating Agency Presentation

Overview of the Assets
Side by Side

	[redacted]	Lepton	[redacted]
Overview		■ Largest electricity transmission and distribution provider in Rhode Island (RI) covering a 187 mi2 area ■ Recognized regulated local natural gas distribution company in Rhode Island	
Sub-Sector		■ Electricity Transmission and Distribution ■ Gas Distribution	
Customers		■ ~780k (500k electric and 273k gas customers	
Geography		■ US: Rhode Island	
Other Assets		■ 1 Permanent and 2 temporary LNG (Liquefied natural gas) Facilities	
Regulator		■ Rhode Island Public Utilities Commission (RIPUC) ■ FERC (Federal Energy Regulatory Commission) (Electric transmission business)	
Reg periods		■ Aug-18: RIPUC approved settlement between company and RI Division of Public Utilities and Carriers which included creation of a 3 year rate plan framework with an optional 1 year extension and sets precedent for future forecasted multiyear rate plans ■ FERC: Formula Rates	
EBITDA (Mar-20)		■ £243m	
Regulated Asset Value (RAV) / Rate Base (Mar-20)		■ £2.0bn	
Net Debt (Mar-20)		■ £0.9bn	

Lepton Overview

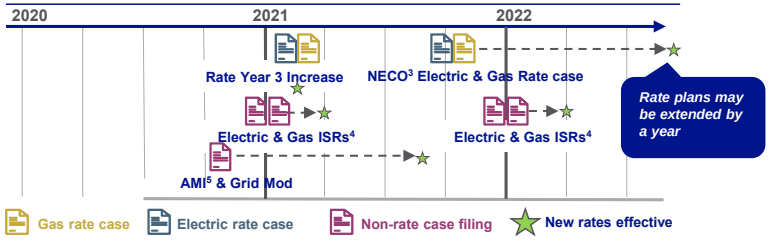
Overview

- Largest electricity transmission and distribution service provider as well as a natural gas distribution company in Rhode Island.
- Regulator: Electric and gas distribution business regulated by the Rhode Island Public Utilities Commission, electric transmission business regulated by the FERC
- ~ 735 employees
- Covers ~ 187 square miles and a population of over 1 million. ~ 506,000 electric customers and 273,000 gas customers
- $2.4bn rate base ($1.7bn distribution, $744m transmission) in FY19, up by 9% from $2.2bn in FY18 ($1.5bn distribution, $721 transmission)[1]

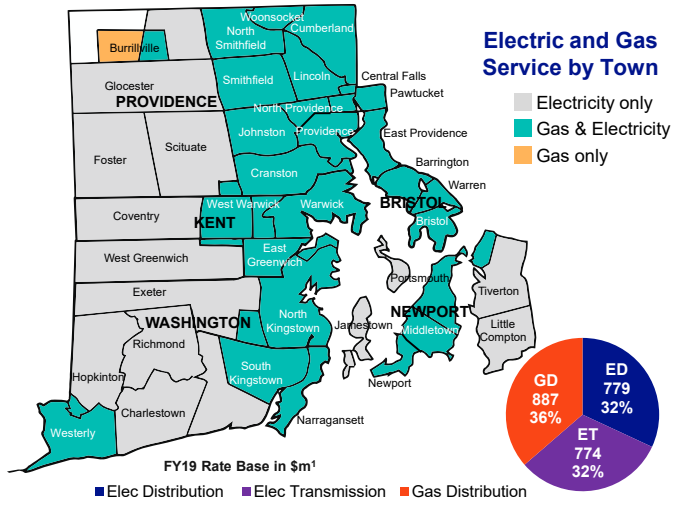
Financials Overview

£m, FY Mar	FY18	FY19	FY20
Revenue	1,032	1,197	1,293
Revenue Growth		16.0%	8.0%
Opex[2]	(827)	(945)	(1,050)
EBITDA	205	252	243
EBITDA Margin	19.9%	21.0%	18.8%
EBIT	138	175	155
Net Income	80	97	85
Net Debt	816	860	926
Capex	(192)	(235)	(268)
% Revenues	18.6%	19.6%	20.7%
Rate Base[2]	1,615	1,840	2,033

Regulatory Timeline for Distribution



Map of Operations



Source: Company Information
1 As at 31-Mar-19. 2 Includes other positions including environmental and cost of removal. 3 The Narragansett Electric Company. 4 infrastructure system replacement surcharge. 5 Advanced metering infrastructure

Transaction Considerations

[redacted]

Lepton

- **Separation**: Business separated sufficiently to allow for transaction completion, with a transitional services agreement from Nucleus to Lepton to provide for all activities as needed, winding down over the following 2-3 years
- **Financing**: Lepton's third party debt will remain in place.

[redacted]

National Grid USA and The Narragansett Electric Company
Division 1-11

Request:

Please provide copies of all issuances by investment analysts or Credit Rating Agencies concerning the Transaction.

Response:

Please see Attachment NG-DIV 1-11-1 through Attachment NG-DIV 1-11-5 for copies of issuances by investment analysts or Credit Rating Agencies concerning PPL Rhode Island Holdings, LLC's acquisition of The Narragansett Electric Company ("Narragansett") from National Grid USA with respect to National Grid USA and Narragansett that are in National Grid USA and Narragansett's possession, custody, and control. Additional issuances by investment analysts are deemed the confidential and proprietary information of those investment analysts and National Grid USA and Narragansett have not been given permission to obtain and/or release those documents.

Prepared by or under the supervision of: Christopher McCusker and Richard Burlingame

S&P Global Ratings

RatingsDirect®

Research Update:

National Grid PLC Ratings Affirmed On Portfolio Repositioning; Outlook Stable

March 19, 2021

Rating Action Overview

- National Grid PLC (NG) has announced that it is looking to acquire Western Power Distribution PLC (WPD), the U.K.'s largest electricity distribution business.
- NG will pay £7.8 billion for WPD, which we project will have a regulated asset base (RAV) of £8.8 billion as of March 31, 2022. We expect this to be partly financed by NG's divestment of Narragansett Electric Company (NECO) its subsidiary in Rhode Island and the sale of a majority stake in its U.K. gas transmission operation over the next 12-18 months.
- We view the transactions as marginally beneficial to NG's business risk profile, representing a shift toward electricity networks from gas.
- We expect NG's funds from operations (FFO) to debt to remain at about 10.5%-12.0% in the next three years thanks to the disposal and issuance of additional hybrid debt as required, and in line with the 10% target for the current rating.
- We have affirmed the long-term issuer credit rating and debt ratings on parent company NG and all of its U.K. subsidiaries (see Ratings List below).
- The stable outlook reflects our expectation that the proposed strategic repositioning will be executed successfully, with NG maintaining FFO to debt above the 10% downside threshold for the current rating.

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Rating Action Rationale

NG announced that it has entered a transaction to acquire WPD from PPL Corporation, the U.K.'s largest electricity distribution business, for equity value of £7.8 billion. As part of the deal, NG will sell NECO to PPL for an equity value of $3.8 billion. NG also announced that it will launch the sale of a majority stake in its gas transmission operation in the U.K. later this year. NG expects to complete the WPD acquisition within the next four months and the Rhode Island subsidiary disposal to occur before the end of the first quarter of 2022.

The portfolio repositioning should marginally benefit NG's business risk profile. If executed successfully, we expect the strategic repositioning of the portfolio to marginally strengthen the group's business risk profile, given the shift toward electricity networks and away from gas networks (from roughly 60% exposure to electricity today to roughly 70% post transactions). In the near term, we view the risk profiles of gas and electricity as similar. In the longer term, we see electricity as a stronger asset given the growth opportunities surrounding the electrification of countries in line with long-term carbon neutrality plans. The large scale of the new group--£58 billion RAV in 2024 (£46 billion in 2021)--and its enhanced geographic diversification also support the business risk profile.

Ofgem's final determination for the 2021-2026 regulatory period reduces expected returns for NG. We expect Ofgem's final determination for the 2021-2026 regulatory period to create tough operating conditions for NG (see "National Grid PLC Downgraded To 'BBB+' On Weaker Metrics Following Ofgem Final Determination; Outlook Stable," published on March 2, 2021). Under the final determination, NG's U.K. transmission systems are subject to lower overall regulatory returns, greater pressure on operating performance, and limited scope for outperformance in terms of total expenditure. While relatively remote at this stage, we nonetheless expect the next regulatory period starting April 2023 (RIIO-ED2) to be tough for U.K. power distribution networks such as WPD.

Credit metrics are forecast to remain in line with the target for the ratings throughout the execution of the strategic repositioning. NG intends to finance the acquisition of WPD via fully committed £8.25 billion bridge facilities and then repay them with the proceeds from the divestments of NECO and the U.K. gas transmission operation, and the issuance of new senior debt and hybrid securities as appropriate. We now forecast consolidated capital expenditure (capex) in the next five years will rise to about £6.7 billion a year, from about £5 billion in the financial year ending March 31, 2020 (FY2020). The company will not change its dividend policy, which will be increasing in line with annual consumer price inflation including owner occupiers' housing costs.

Overall, in consideration of the transactions, we still expect NG's FFO to debt to be at about 10.5%-12.0% in the next three years, and in line with the 10% target for the current 'BBB+' issuer credit rating. While we recognize the execution risk associated with the transactions--particularly with respect to the divestment of the gas transmission operation, which is expected to be finalized in about 18 months--we take into the account the current headroom over the downside trigger and management's commitment to the current rating level.

Outlook

The stable outlook reflects our expectation that over the next three years, and throughout the execution of the proposed strategic repositioning, NG will maintain FFO to debt above the 10% downside trigger for the current rating. It also reflects our view that following the execution of the transactions, the group's operations will remain sizable and diversified.

Upside scenario

We would consider raising the ratings if NG successfully executes the strategic repositioning while adjusted FFO to debt stays above 13%, and the company demonstrates above-average operating performance and a clear plan to transition its operation toward the net zero goal.

Downside scenario

We could lower the ratings if we anticipate a sustained and extended decline in consolidated adjusted FFO to debt, to less than 10%. This could occur if NG fails to execute the divestments according to its initial plan without implementing additional measures or if it cannot control costs due to poor operating performance.

Company Description

NG is a regulated utility that owns and operates electricity and gas networks in the U.K. and transmission and distribution utilities in the U.S. As of March 31, 2020, U.K.-regulated operations accounted for 50% of the company's total operating profit, U.S.-regulated operations accounted for 42%, and the remaining 8% came from other unregulated operations.

NG owns the high-voltage electricity transmission system in England and Wales through National Grid Electricity Transmission PLC, which operates the system across Great Britain. It owns and operates the gas-transmission system in Great Britain through National Grid Gas PLC (NGG).

In the U.K., NG also has some modest related businesses that operate outside of traditional regulatory price controls, such as the grain liquefied natural gas terminal, electricity interconnectors between England and continental Europe, property, and metering.

The U.S. operations are supervised by several regulators. Energy distribution is governed by state regulators in New York, Massachusetts, and Rhode Island; a variety of transmission and interconnection businesses are regulated by the Federal Energy Regulatory Commission); and 3.8 gigawatts (GW) of power-generation supply are under a long-term supply contract on Long Island, N.Y.

Our Base-Case Scenario

Assumptions

- Transaction completed in line with the company's assumptions:
- --Acquisition of WPD by June 30, 2021 for £7.8 billion cash.
- --Sale of NECO for £2.7 billion by March 31, 2022.
- --Launch the sales process for a majority stake in NGG in the second half of 2021, with the sale completed in the second half of 2022.
- £400 million reduction in NG's operating profit in FY2021, mainly because of an increase in bad debt and operating costs and delays in revenue increases.
- Our internal inflation assumptions as measured by the retail price index in the U.K. is forecast at 2.2% for 2021, 2.7% in 2022, and 3.1% in 2023. We forecast inflation as measured by the consumer price index in the U.K. at 1.8% for 2021, and 1.9% for 2022 and 2023.
- For the U.S. operations, we monitor approved tariffs and rates as per regulatory decisions, as well as its political and regulatory risks.
- Significant consolidated capex of about £6.4 billion-£6.8 billion per year for the next few years, weighted more toward the U.S.

- Dividends increasing in line with annual inflation.

Key metrics

- FFO to debt of about 10.5%-12.0% in 2021-2023; and
- Debt to EBITDA of about 6.5x-7.0x.

Liquidity

We assess NG's liquidity as adequate. We forecast that the group's liquidity sources--including cash, operating cash flows, and available bank lines--will exceed projected uses (mainly necessary capex, debt maturities, and dividends) by more than 1.1x in the next 12 months. Our assessment of NG's liquidity profile signifies that its excellent access to the capital markets is mitigated by its heavy annual refinancing needs. We understand that there are no restrictive covenants in the documentation for the group's debt.

Principal liquidity sources:

- Access to unrestricted short-term cash and marketable securities of about £1.8 billion;
- An undrawn £5.5 billion of committed credit facilities maturing in more than 12 months, which are available for general corporate purposes;
- Sale of the Rhode Island subsidiary for £2.7 billion in first-quarter 2022;
- Positive cash FFO of about £3.9 billion; and
- Bridge credit facility of £8.2 billion.

Principal liquidity uses:

- Acquisition of WPD for £7.8 billion within the next four months;
- About £5.7 billion in capex over the next 12 months;
- Dividend payments of about £1.3 billion; and
- About £3.4 billion in debt maturing the 12 months following Dec. 31, 2020, including commercial papers.

Ratings Score Snapshot

Issuer credit rating: BBB+/Stable/A-2

Business risk: Excellent

- Country risk: Low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Adequate
- Financial policy: Neutral
- Management and governance: Satisfactory
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: bbb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- National Grid PLC Downgraded To 'BBB+' On Weaker Metrics Following Ofgem Final Determination; Outlook Stable, March 2, 2021
- U.K. Utilities Confront Regulatory Challenges, Brexit, And COVID-19 Fallout In 2021, Dec. 14, 2020

Ratings List

Ratings Affirmed	
National Grid PLC	
National Grid Holdings One PLC	
National Grid Gas PLC	
National Grid Electricity Transmission PLC	
Issuer Credit Rating	BBB+/Stable/A-2
Lattice Group PLC	
National Grid Gas Holdings PLC	
Issuer Credit Rating	BBB+/Stable/--
National Grid PLC	
Senior Unsecured	BBB
Commercial Paper	A-2
British Transco International Finance B.V.	
Senior Unsecured	BBB+
NGG Finance PLC	
Junior Subordinated	BBB-
National Grid Electricity Transmission PLC	
Senior Unsecured	BBB+
Commercial Paper	A-2
National Grid Gas PLC	
Senior Unsecured	BBB+
Commercial Paper	A-2

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Attachment NG-DIV 1-11-2

18 Mar 2021 | Comment

Fitch Ratings: National Grid's Acquisitions and Disposals of Networks Neutral for Credit Quality

Fitch Ratings-London-18 March 2021: Fitch Ratings says that National Grid plc's (NG; BBB-/Stable, BBB senior unsecured) announced agreement to acquire UK electricity networks, and dispose of US electricity and gas assets and announced plan to sell UK gas assets is credit-neutral to the ratings of the group and its subsidiaries.

NG is to acquire Western Power Distribution Plc (WPD) holding company and its UK electricity network subsidiaries from PPL Corporation, and to sell its US Rhode Island gas and electricity networks (US RI) to PPL Corporation. Separately, NG is to commence a process to sell a majority stake in its UK gas networks (NGG). These transactions require shareholder and regulatory approvals; in addition, the sale of US RI is conditional on the completion of the WPD acquisition.

In our view, the acquisition and disposals would be moderately positive for NG's business risk profile due to higher contribution to earnings from electricity networks versus gas networks. Post-transactions, Fitch expects contribution from the UK networks to the group's total cash flow to be higher than that of the US networks in FY22 (year ending March) and FY23, before almost equalising by FY25.

We forecast funds from operations (FFO) net leverage to peak in FY22 above an estimated 8.0x and FFO interest coverage to be around 4.0x, immediately after the WPD acquisition (equity value of GBP7.8 billion) and US RI disposal (equity value of USD3.8 billion/GBP2.7 billion). Before the announcement, we forecast FFO net leverage to peak in FY22 at an estimated 7.3x. We expect NG to finance the sizeable acquisition of WPD with a fully committed bridge facility of GBP8.25 billion. This will be repaid by the proceeds from the disposals of US RI and the majority stake in NGG together with new debt issuance, including hybrids.

Fitch's preliminary forecast sees three-year average (FY23-FY25) FFO consolidated net leverage at about 7.3x, implying depleted headroom compared with our rating sensitivity while consolidated FFO interest coverage remains well above our negative sensitivity of 2.5x. We also expect consolidated gearing (net debt/asset base) to have limited headroom against our negative rating sensitivity of 76%. Our forecast currently assumes no outperformance for the RIIO-T2 price control and other conservative assumptions and it is based on the final determination, which NG appealed to the Competition and Markets Authority on 2 March.

We expect management to take further mitigating measures in case of underperformance, disposal delays or external hits to maintain credit metrics that are commensurate with their stated commitment to maintain the

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MOODY'S INVESTORS SERVICE

ISSUER COMMENT
18 March 2021

Rate this Research

RATINGS

National Grid plc

Issuer ratings	Baa2/P-2
Outlook	Stable

Source: Moody's Investors Service

KEY METRICS:

National Grid plc

	Mar-18	Mar-19	Mar-20
FFO / Net Debt	16.4%	13.9%	12.4%
RCF / Net Debt	9.6%	9.4%	9.1%

Source: Moody's Financial Metrics

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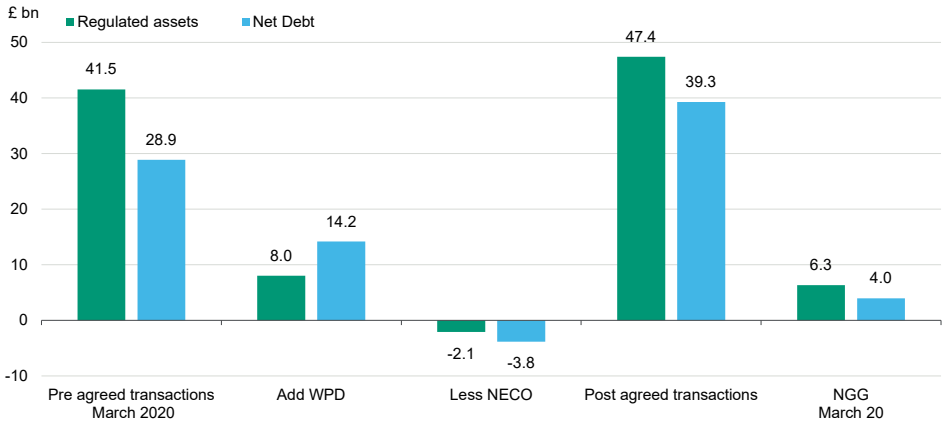
National Grid plc

Proposed transactions credit neutral

On 18 March, National Grid plc (National Grid, Baa2 stable) and PPL Corporation (PPL, Baa2 positive) announced[1] that (1) National Grid will acquire the holding company of PPL's UK electricity distribution assets, Western Power Distribution plc (WPD, Baa3 under review for upgrade), and all of its subsidiaries; and (2) PPL will acquire National Grid's Rhode Island utility business, Narragansett Electric Company (NECO, Baa1 under review for upgrade). Concurrently, National Grid announced it will initiate a sale process later this year for a majority stake in its UK gas transmission and metering assets, owned by National Grid Gas plc (NGG, Baa1 stable). We view the proposed transactions as credit neutral for National Grid, with the modest weakening in key credit metrics from the increase in leverage offset by a slight improvement in business risk profile, and expect the consolidated credit quality of the group will remain commensurate with a Baa1 rating.

Exhibit 1

National Grid's leverage is expected to be materially higher following agreed transactions



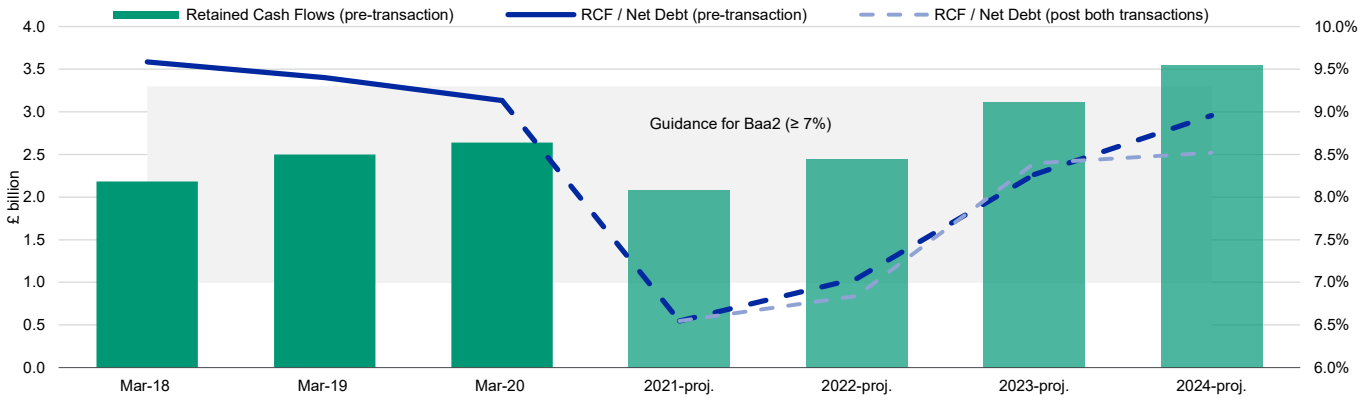
Net debt values for WPD and NECO refer to cash proceeds paid and net debt value agreed at time of transaction
Source: Moody's Investors Service

Under the agreement between National Grid and PPL, both parties will assume all outstanding external debt of the entity they are acquiring, c. £6.4 billion for the WPD group and c. $1.4 billion for NECO. National Grid will make a cash payment of £7.8 billion to PPL on completion of the WPD transaction, expected in Q3 2021, and receive $3.8 billion on completion of the NECO transaction, expected before the end of March 2022 (National Grid's year end). The acquisition financing facilities put in place by National Grid are sized accordingly. The net cash impact, from both transactions, of c. £5 billion from National Grid to PPL equates to around 16% of the National Grid's net debt at September 2020.

Both acquisitions are at substantial premiums to the current regulated asset values/rate base of the assets. However, with WPD being almost 4x the size of NECO by this metric (£8.0 billion compared to £2.1 billion, both at March 2020), the transaction will increase National Grid's leverage. The extent of the aggregate increase will depend on (1) sale proceeds realised from NGG; and (2) the mix of new debt and hybrid capital securities issued (we ascribe 50% equity credit to NG's outstanding hybrids). We expect NGG to be sold for a smaller RAV premium (after taking account of the metering assets where EBIDTA was £196 million in FY2020) than WPD, and National Grid's Retained Cash Flow (RCF)/ Net Debt to be slightly lower over FY2022-25 than if these transactions were not undertaken. However, as Exhibit 2 shows, we expect National Grid will maintain flexibility against minimum guidance for the current rating level.

Exhibit 2

National Grid is expected to maintain headroom to minimum guidance after completion of the transactions



Assumes (1) the WPD acquisition and NECO disposal are completed in FY2022; (2) a majority stake is sold in NGG in FY2023 at a sizeable RAV premium; and (3) a modest amount of hybrid securities are issued.
Source: Moody's Investors Service

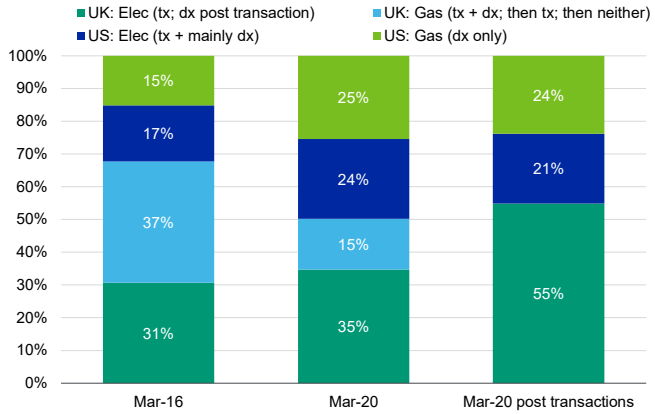
The planned transactions slightly improve National Grid's business risk profile. This is because of (1) the shift in the group's regulated assets and earnings back towards the UK, which we view as being of a higher quality than those from US distribution; and (2) higher growth prospects for the UK business, which have lagged those in the US in recent years, reflecting that the group's remaining wholly-owned UK assets will be electricity assets with (currently) greater capex needs than for gas. Exhibit 3 shows the transaction returns the split of National Grid's regulated assets by jurisdiction towards the level five years ago, before it completed its exit from UK gas distribution over 2017-19.

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Exhibit 3

Increased exposure to UK and electricity following transactions

Breakdown of regulated assets by jurisdiction and fuel



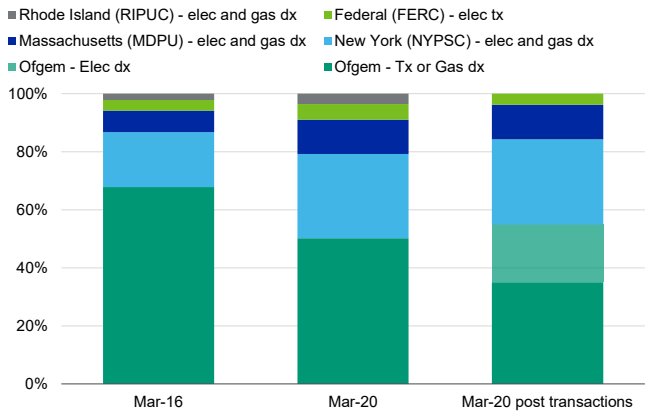
For wholly-owned subsidiaries, i.e. excluding NGG in Mar-20 post transactions

Source: National Grid; Moody's Investors Service

Exhibit 4

UK and New York businesses will continue to drive performance

Breakdown of regulated assets by regulator



For wholly-owned subsidiaries, i.e. excluding NGG in Mar-20 post transactions

Source: National Grid; Moody's Investors Service

There will not be a material change in National Grid's regulatory diversification following the transactions with PPL as less than 10% of the group's US assets were in Rhode Island. Following the shift from gas transmission to electricity distribution, National Grid will benefit from non-contemparaneous regulatory determinations for its UK businesses (electricity distribution controls commence two year later than those in transmission and gas distribution). The regulatory frameworks in Great Britain and New York will continue to have the greatest bearing on the group's business risk. We consider both of these are less stable and predictable than they once were, although Great Britain remains amongst the most highly regarded internationally, with increased political intervention and challenging regulatory determinations seen in New York over the last 18 months. Finally, whilst National Grid will materially increase the share of its regulated assets that are electricity, which improves its ESG credentials and growth prospects, its remaining US gas local distribution companies all have rate case filings outstanding and operate in states pursuing aggressive decarbonisation agenda.

The large premiums paid for both regulated utilities highlight strong investor demand for high quality assets, with WPD being the frontier performer in its sector and with key regulatory determinations expected for WPD in 2022. UK allowed returns will be sharply lower from 1 April for transmission and gas distribution companies from the start of the new regulatory period - though all these companies have lodged appeals over the cuts to their allowed equity returns.

Moody's related publications

» National Grid plc: Update following downgrade to Baa2 (16 March 2021)

» Regulated Electricity Distribution Networks - Great Britain: RIIO-ED2: Ofgem signals higher cost of debt allowance, a credit positive (11 March 2021)

» Western Power Distribution plc: Update to credit analysis (16 December 2020)

Endnotes

1 National Grid: Proposed WPD acquisition & portfolio repositioning, available at: https://otp.tools.investis.com/Utilities/PDFDownload.aspx?Newsid=1461911

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REPORT NUMBER 1272865

Company research
30 April 2021 06:41 GMT

National Grid (NG.L)

United Kingdom | Utilities

BUY

Price: 898p
Target: 990p (prev: 960p)
Forecast Total Return: 15.9%

Market Cap: £32bn
Adj. EV: £67bn
Average daily volume: 5.9m

The electric pivot is positive

National Grid's transaction triple play is a transformative change, and a clear pivot towards electricity. Decarbonisation of heat and transport are the next big challenges, and electrification is the solution. National Grid is exchanging uncertainty and optionality, for greater mid-term certainty and visibility, and we back the strategic shift. Many moving parts, but we consider that the three transaction are accretive to earnings. Target price nudged up to 990p. Buy.

- **Transformative change** – National Grid's announcement last month of the acquisition of WPD, GB's largest DNO, the disposal NECO, its Rhode Island utility, and the intention to sell a majority stake in NGG, marks a transformative change for the company.
- **Clear logic in electricity pivot** – residential buildings, passenger cars, and light duty vehicles accounted for c.34% of total UK emissions in 2018. Tackling these is of paramount importance, and electrification is the answer. There is clear strategic logic to the pivot towards electricity, and it secures visible growth for longer.
- **EVs, heat pumps and cyber are key totex drivers –** our analysis of WPD's ED2 business plan second draft highlights reinforcement investment, electrification of the commercial van fleet, and cyber as the drivers of higher proposed totex in ED2 than the levels seen in ED1. We consider all three to be credible reasons for an uptick in totex.
- **Pivot is earnings enhancing** – we have incorporated WPD in our estimates from end July 2021, assuming a 4.65% allowed return on equity, given the lack of validity to the outperformance wedge. Our FY22E EPS moves up by 24.5%, FY23E EPS by 24.3%, and FY24E by 19.6%. Pro-forma numbers assuming a disposal of 100% of NGG at a 40% premium to FY22E RAV points to lower levels of accretion, 13.3% in FY23E, and 8.8% in FY24E.
- **Higher valuation, target price moves to 990p** – the inclusion of WPD at a 38% premium to FY22E RAV, the NECO disposal, and valuing the US at a 70% premium to the rate base, pushes our valuation up. Our target price moves to 990p (vs. 960p), c.16% total potential return over 12 months. Buy.

Utilities

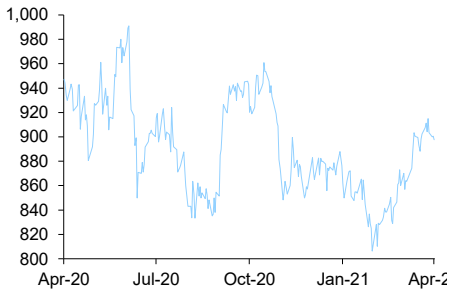
Martin Young
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+44 (0)7541 993 128
martin.young@investec.co.uk

Financials and valuation — **Year end: 31 March**

	2019A	2020A	2021E	2022E	2023E
Revenue (£m)	14,933	14,540	14,190	15,739	15,666
EBITDA (£m)	5,040	4,947	4,859	6,418	7,151
Operating profit (£m)	3,442	3,307	3,104	4,582	5,165
PBT (normalised) (£m)	2,413	2,281	2,194	3,423	3,762
Net Income (normalised) (£m)	1,998	2,015	1,836	2,701	2,818
EPS (norm., cont.) (p)	59.0	58.2	52.0	75.5	77.7
FCFPS (p)	(7.2)	(31.3)	(35.0)	(23.5)	(12.1)
DPS (p)	47.3	48.6	49.6	50.3	51.3
PE (normalised) (x)	15.2	15.4	17.3	11.9	11.6
Adj. EV/EBITDA (x)	13.4	13.6	13.9	10.5	9.4
FCF yield (%)	(0.8)	(3.5)	(3.9)	(2.6)	(1.3)
Dividend yield (%)	5.3	5.4	5.5	5.6	5.7
Price/Book (x)	1.7	1.7	1.6	1.4	1.3

Source: Company accounts/Investec Securities estimates

Price Performance



	1m	3m	12m
Price	4.4	4.1	(5.2)

Source: FactSet

Investec
Investec Bank plc (UK)

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Clear logic to electric pivot

Transformative changes sees National Grid pivot towards electricity…

National Grid's announcement last month of the acquisition of WPD, the owner of four electricity distribution companies in England & Wales, the disposal of The Narragansett Electric Company ("NECO"), its Rhode Island utility, and the intention to sell a majority stake in National Grid Gas plc, marks a transformative change for the company. There is a clear pivot towards electricity, and, to a lesser extent, the UK.

…with the acquisition of WPD, GB's largest DNO by RAV

In this report, we examine the strategic rationale of the pivot, discuss WPD's draft business plan for RIIO-ED2, the next regulatory period commencing April 2023, update our estimates for the two announced transactions, and include WPD in our sum-of-the-parts valuation. Our key findings are:

- **WPD is GB's largest DNO** – measured by RAV, £8bn at March 2020, WPD is the largest distribution network operator (DNO) in GB, with a connected customer base of 7.9m, and operating in about a third of the UK. WPD was fast-tracked at RIIO-1, and although it expects to underperform on finance across the regulatory period, Ofgem's 2019/20 data suggests that WPD will outperform on non-totex measures, occupying a leadership position on the 'broad measure of customer service'.
- **Clear logic in electricity pivot** – residential buildings, passenger cars, and light duty vehicles accounted for c.34% of total UK emissions in 2018, and tackling these sectors is therefore of paramount importance. Electrification is more advanced than other options for decarbonising transport, and likewise for heat pumps in the decarbonisation of heat. In our opinion, there is clear strategic logic to the pivot towards electricity, securing visible growth for longer.

We find clear logic to the pivot, with electrification of heat and transport visible drivers

- **EVs, heat pumps and cyber are key totex drivers** – our analysis of WPD's ED2 business plan second draft highlights reinforcement investment, electrification of the commercial van fleet, and cyber as the drivers of higher proposed totex in ED2 than the levels seen in ED1. As a direction of travel, we consider all three to be credible reasons for an uptick in totex.
- **Pivot is earnings enhancing** – we have incorporated WPD in our estimates from end July 2021, and removed NECO from end March 2022. Given the nature of the regulatory beast, we applied limited cuts to WPD's totex proposals, while for the allowed return on equity we have used 4.65% CPIH real, opining once again that the outperformance wedge lacks validity. Our FY22E EPS moves up by 24.5%, FY23E EPS by 24.3%, and FY24E by 19.6%. Pro-forma numbers assuming a disposal of 100% of NGG at a 40% premium to FY22E RAV points to lower levels of accretion, 13.3% in FY23E, and 8.8% in FY24E.
- **Higher valuation, target price moves to 990p** – notable changes to our valuation are the inclusion of WPD at a 38% premium to FY22E RAV, the NECO disposal, the US now valued at a 70% premium to the rate base, an uplift to reflect an assumption that 51% of NGG will be disposed at a 40% premium to FY22E RAV. These see our valuation move to 989p from 960p, underpinning an increase in our target price to 990p from 960p.

Transactions are earnings accretive; we raise our TP to 990p, and reiterate our Buy rating

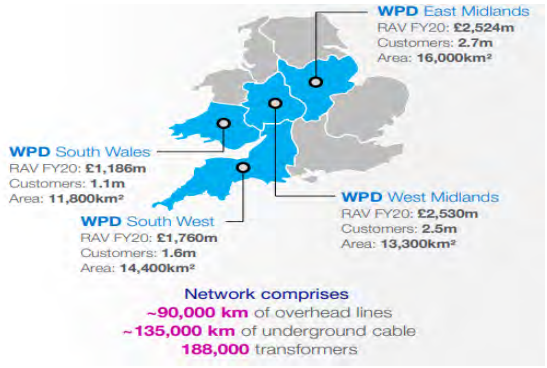
This points to a 12-month forecast total return of c.16%, and supported by the clear logic of the pivot away from the uncertainties of gas, to the certainty of electrification, we reiterate our Buy rating.

WPD – GB's largest DNO by RAV

WPD serves the Midlands, South Wales and the South West

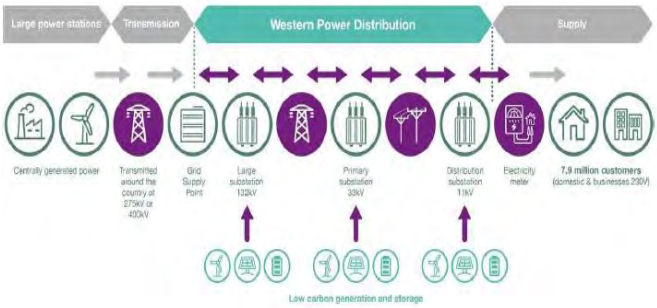
WPD comprises four individual electricity distribution companies, covering the South West, South Wales, and the Midlands, c.1/3rd of GB. WPD's territory covers large cities such as Birmingham and Bristol, but also rural areas such as Cornwall and parts of South Wales. Measured by RAV (£8bn at March 2020), WPD is the largest electricity distribution group in GB.

Figure 1: WPD - snapshot



Source: Company

Figure 2: WPD in the electricity value chain



Source: WPD

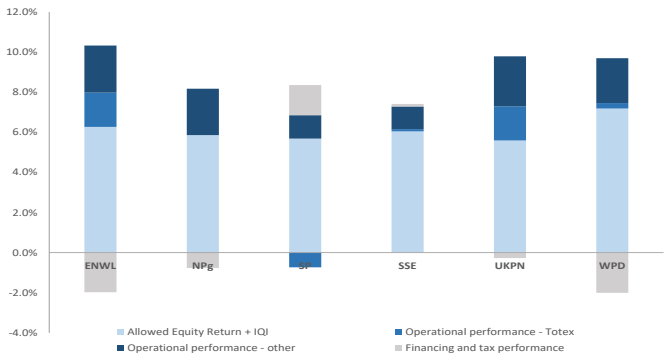
WPD was fast-tracked in ED1, with a higher cost of equity than the slow-track companies…

WPD was fast-tracked in RIIO-1, with a cost of equity of 6.4% RPI real, higher than the 6% in the final determinations for the slow-track companies. However, its allowed cost of debt is indexed to the iBoxx 10yr trailing average index, as opposed to the iBoxx 10-20yr trombone indexation of the slow track companies. This is a contributory factor as to why WPD estimates it will underperform on finance and tax at notional gearing across the total ED1 period (Figure 3). Consequently, WPD is unlikely to be a standout performer on RORE in ED1. However, on operational performance (ex-totex), WPD's RORE estimated outperformance is 2.2%. The two largest contributors to this performance are 'interruptions – related quality of service' and the 'broad measure of customer service', with WPD the joint leading company is respect of the latter.

…but lost out on cost of debt

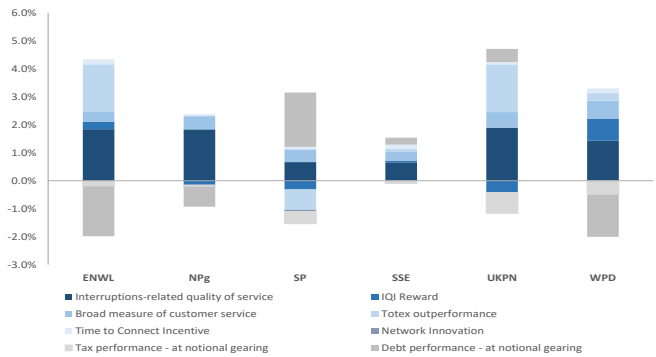
Ofgem's working assumption for the cost of debt in ED2 is a 17yr trailing average based on the iBoxx GBP Utilities index plus 25bp, equivalent to 2.087% CPIH real. WPD's allowed cost of debt is 0.76% RPI real, equivalent to 1.74% CPIH real. This suggests that underperformance on financing in ED2 is possible, and we look to National Grid to elaborate a financing strategy, once the acquisition completes, to close the gap.

Figure 3: ED1 RORE component by DNO group



Source: Investec Securities analysis of Ofgem 2019-20 RIIO-ED1 annual report

Figure 4: ED1 RORE granularity of operational/financial performance



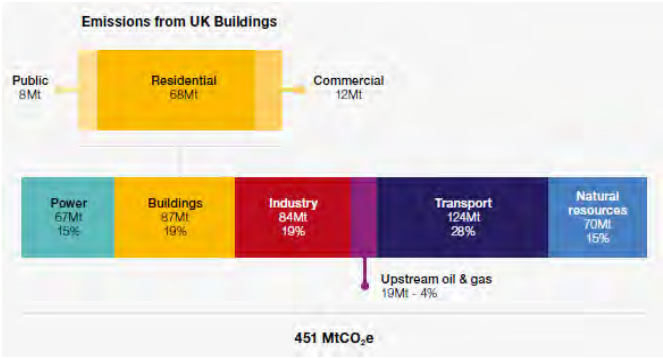
Source: Investec Securities analysis of Ofgem 2019-20 RIIO-ED1 annual report

Clear drivers supporting the pivot…

Transport and heat are the next big decarbonisation challenges…

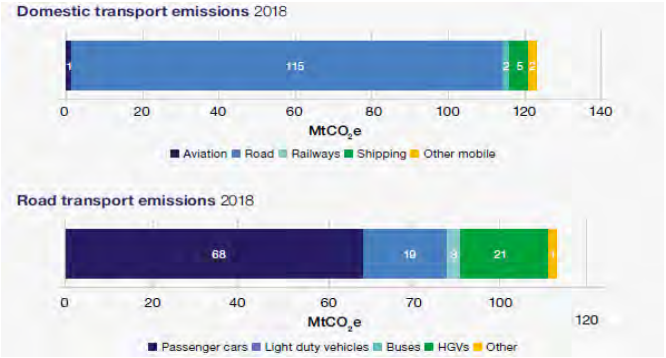
Transport (28%), and buildings (19%) accounted for almost half of UK territorial CO_2 emissions in 2018, and from these two categories alone, residential buildings, passenger cars, and light duty vehicles accounted for c.34% of total emissions in 2018.

Figure 5: UK territorial emissions (2018)



Source: BEIS

Figure 6: Transport emissions (2018)

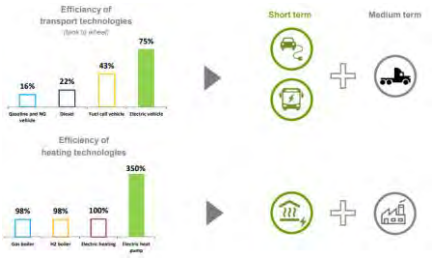


Source: BEIS

…electrification is the more visible and likely solution

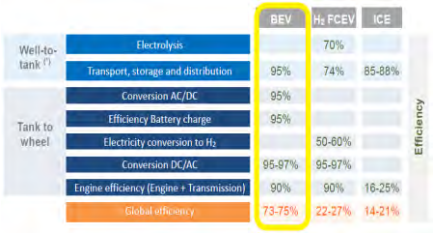
Tackling these sectors is therefore of paramount importance. Electricity is the common strand across solutions to these challenges, as, although there will be alternatives, electrification of transport is more advanced than other options for decarbonising transport, and likewise for heat pumps in the decarbonisation of heat. Battery vehicles and electric heat pumps are more efficient than alternatives, and the cost advantage this conveys, allied with the head start these technologies have, very much points to significantly more visible growth opportunities in electricity than in gas. In our opinion, there is clear strategic logic to the pivot towards electricity, and as we discuss later, secures visible growth for longer.

Figure 7: Electrification of light transport and heat are clear drivers



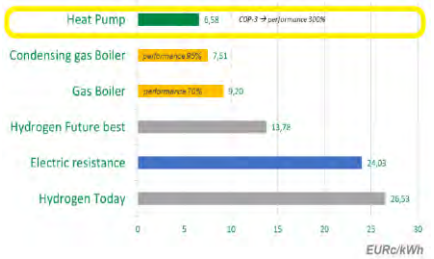
Source: Iberdrola

Figure 8: Transport – BEV efficiency > H_2 fuel cells & the ICE



Source: Iberdrola

Figure 9: Residential heating – heat pump operating costs < gas/H_2 boilers

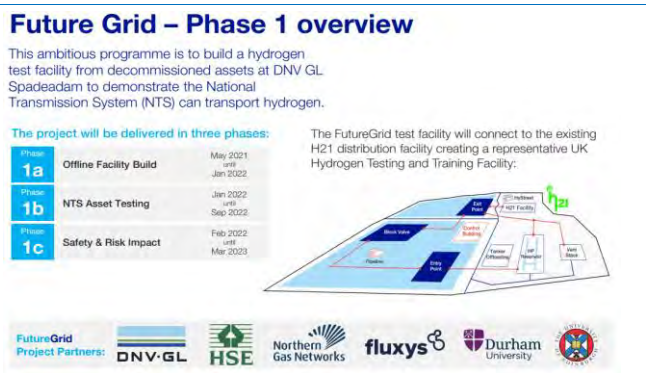


Source: Iberdrola (gas 7.36c/kWh, electricity 24.03c/kWh)

Gas faces uncertainties, and although hydrogen is an opportunity, it is someway off

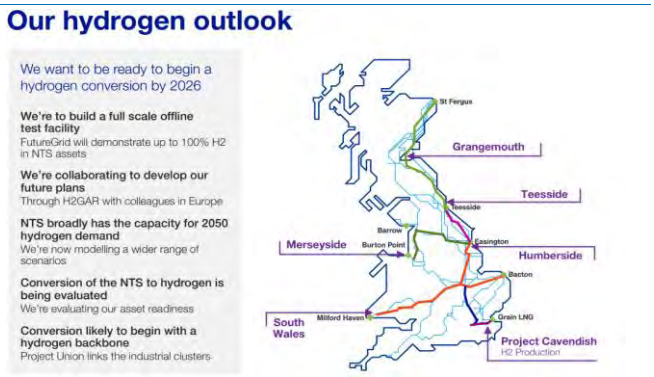
In our opinion, the opportunities for gas are longer term, and more uncertain at this juncture. CCUS and hydrogen are key elements of the Government's Ten Point Plant, and how hydrogen develops will be of significant importance to the longer-term future of the gas network. National Grid has previously communicated a hydrogen outlook, indicating that it wants to be ready to begin a hydrogen conversion by 2026. Trials to demonstrate that the National Transmission System (NTS) can transport hydrogen are set to begin in May, but it may be many years before the needs case for funding of wholescale conversion is demonstrated. As such, it is possible to argue that ownership of NGG may be suited to parties willing to entertain the idea of this optionality, and not National Grid which, on balance, seeks visible steady growth.

Figure 10: NTS & hydrogen test facility



Source: Company

Figure 11: Longer-term hydrogen outlook



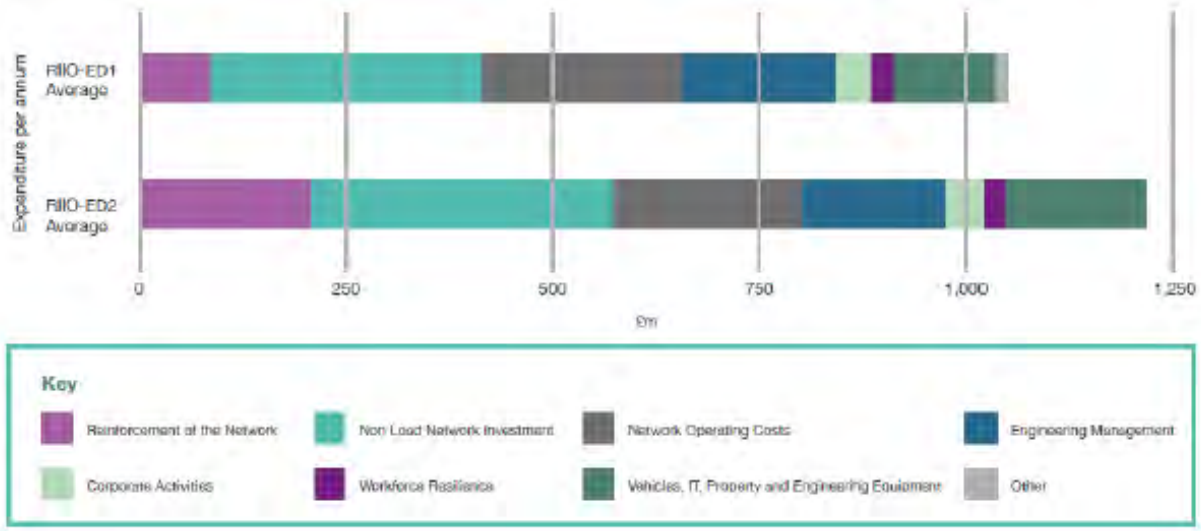
Source: Company

…EVs, heat pumps and cyber drive higher totex

WPD's ED2 draft business plan proposes a 16% uplift in average annual totex vs. ED1

We have examined WPD's RIIO-ED2 business plan second draft, a plan in which the totex proposal of £6.1bn (2020/21 prices) is 16% higher than average expenditure in RIIO-ED1. On an average per year basis, this equates to a £167m uplift for ED2, of which reinforcement of the network (£117m uplift), and vehicles, IT, property and engineering equipment (£51m uplift), are the biggest proposed changes from one regulatory period to the next.

Figure 12: WPD – RIIO-ED2 business plan 2nd draft (£m, 2020/21 prices)



Source: WPD

We outline the modelling assumptions that we make for WPD in ED2 later in our analysis, but we have delved into these two categories to gauge the validity of the totex proposals in WPD's draft business plan.

Network reinforcement to facilitate heat pump installations and EV charging is a key driver…

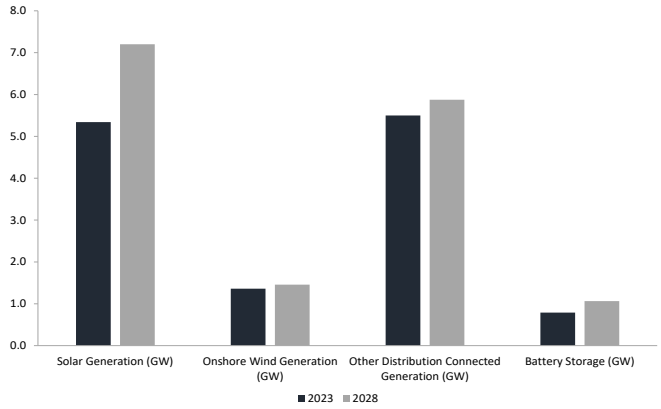
- **Reinforcement of the network** – The Prime Minister's Ten Point Plan set out an ambition to reach 600,000 electric heat pump installations by 2028 (vs. current levels of 30,000), and the sale of new petrol and diesel cars and vans is to be phased out by 2030.

  WPD's Best View for 2028 suggests 893k heat pumps connected to its network, up from a Best View of 265k in 2023. Assuming that c.30% of heat pump installations are in WPD territory, and there is a progressive ramp-up to 600k

annual installations, WPD's Best View does not strike us an inconsistent with governmental ambition.

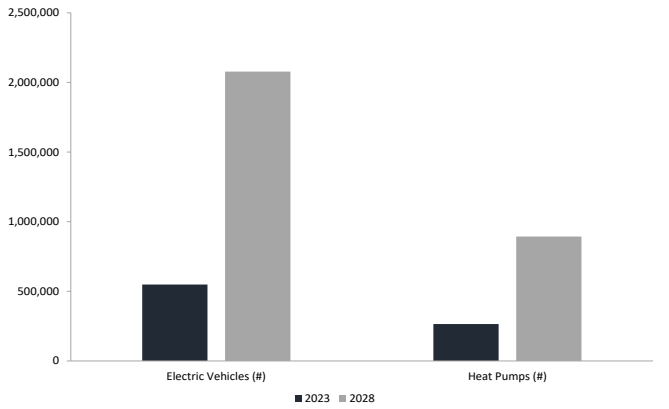
WPD's Best View for 2028 also suggests significant growth in EVs in its territory to 2.1m by 2028. Our Good Energy model has 7.7m EVs (BEV/PHEV cars and vans) by 2028, so again WPD's Best View does not strike us an inconsistent. WPD suggests that the 2030 phase-out target would require c.1m new EV connections nationwide per year, equivalent to c.40% of the new BEV/PHEV registrations we model for 2030. If anything, the connections number strikes us as being conservative.

Figure 13: WPD Best View – Distribution connected generation (GW)



Source: Investec Securities analysis of WPD ED2 2nd draft business plan

Figure 14: WPD Best View – EVs & Heat Pumps (GW)



Source: Investec Securities analysis of WPD ED2 2nd draft business plan

We therefore have a sympathetic ear for WPD's high-level explanation for higher proposed reinforce totex in ED2:

"*The main reason for higher load-related expenditure is the government's 2050 net zero target, which is driving significant growth in low carbon technologies, including electric vehicles, heat pumps, storage and distributed generation. This is exacerbated by the ambitious local development plans of many local authorities in our region which feature commercial, industrial and housing developments*."

…as are cyber and transitioning WPD's commercial van fleet to electric vehicles

- **Vehicles, IT, property and engineering equipment** – among others, this category includes the purchase of vehicles, the purchase of non-operational IT systems, and the purchase/refurbishment of non-operational property. WPD has proposed a core commitment to replace 89% of its commercial van fleet with electric vehicles by 2028, which given that the market price for EVs is higher than diesel models, points to upwards pressure on totex.

Operational and non-operational IT costs in respect of cyber resilience are also forecast to increase, including a new data centre security upgrade. With Ofgem recognising a need for cyber investment, a quote from which can be seen below, we are of the opinion that an upwards movement in such expenditure has validity.

"*We consider that there is a need for network companies to continue to invest, develop, and undertake activities to manage measured risk, cyber maturity and CAF outcomes, and align its organisation with the Security of Network & Information Systems Regulations (NIS) Regulations 20187 requirements at the start of RIIO-2.*"

Our conclusion is that is reasonable to expect an upwards movement in totex for these two categories in ED2 vs. ED1.

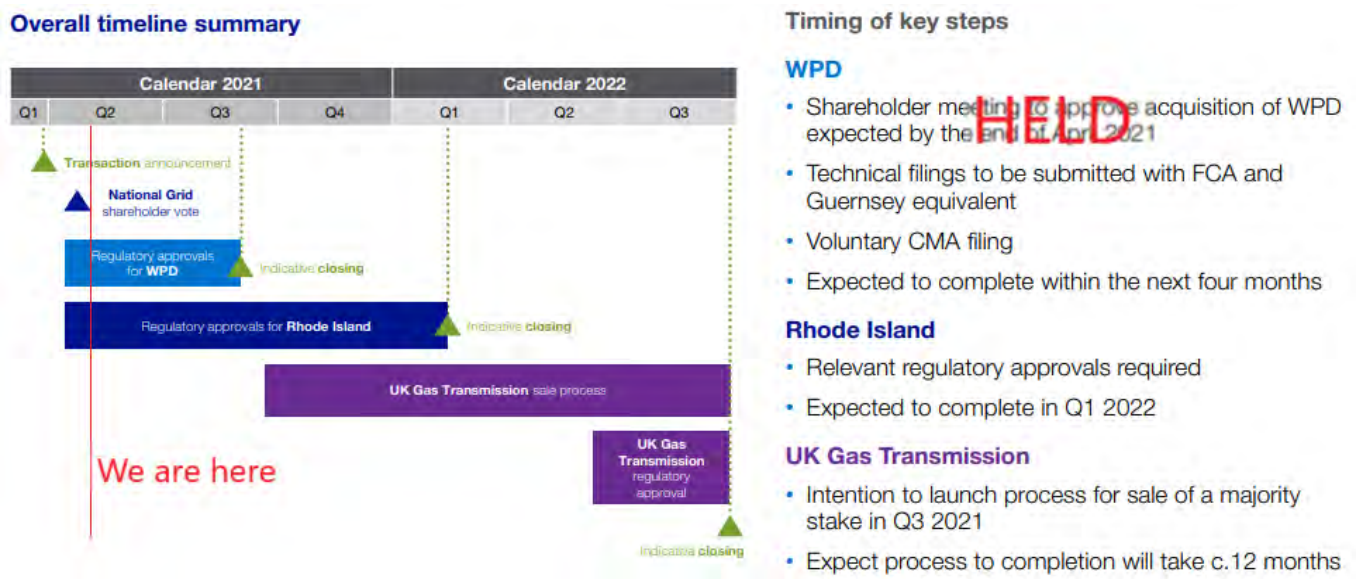
Modelling the pivot

We have revised our estimates to reflect the known parts of the pivot, with some overarching assumptions:

In modelling National Grid, we assume the WPD acquisition completes end July, and the NECO sale end March

1. **WPD in/NECO out** – we have only factored in the two known transactions, the acquisition of WPD, and the disposal of NECO. As neither the size, the consideration, nor timing of the disposal of a majority stake in NGG are known, we have made no adjustment in this respect. In line with the timeline outlined by National Grid, we have assumed that the WPD acquisition completes at the end of July, and the NECO disposal at the end of March 2022, albeit with NECO no longer depreciated from mid-March 2021.

Figure 15: Portfolio – repositioning timeline & regulatory considerations



Source: Company, Investec Securities analysis

2. £5.6bn totex assumption across ED2

WPD will send its first submission Business Plan to Ofgem in July, with the final Business Plan to be submitted in December.

Figure 16: RIIO-ED2 timeline



Source: Ofgem

We fully expect that the totex proposals outlined in the second draft will change by July, and change again by December. However, at this stage, they represent the best information that we have, and are a starting point for constructing our estimates.

Figure 17 sets outs WPD's totex forecast for ED2 at a group level, but as our model is more granular, down to four individual distribution networks, we have also set out WPD's totex forecasts for each of these networks (Figure 18 to Figure 21).

Figure 17: WPD – Core Expenditure forecast

WPD Total Expenditure								
£m at 2020/21 prices	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO-ED2					Total RIIO-ED2
			2023/24	2024/25	2025/26	2026/27	2027/28	
Reinforcement of the Network	83	200	153	167	197	222	258	999
Non Load Network Investment	334	375	356	367	396	384	374	1,877
Network Operating Costs	247	226	233	233	222	222	220	1,129
Engineering Management	232	243	242	242	243	243	244	1,215
Corporate Activities	50	51	51	51	50	51	50	253
Workforce Resilience	31	31	30	31	32	31	31	154
Vehicles, IT, Property & Engineering Equipment	141	192	200	212	195	181	173	962
Network Innovation Allowance	1	1	1	1	1	1	1	4
Atypicals	10	0	0	0	0	0	0	0
TOTAL EXPENDITURE	1,128	1,318	1,265	1,304	1,336	1,335	1,351	6,591
Indirect Allocations	-64	-88	-89	-90	-88	-87	-86	-440
Totex Adjustments	-18	-17	-17	-17	-17	-17	-17	-87
TOTEX	1,046	1,213	1,159	1,196	1,231	1,231	1,248	6,064

Source: WPD ED2 2nd draft business plan

Figure 18: WPD West Midlands – Core expenditure forecast

West Midlands - Expenditure funded through DUoS								
£m at 2020/21 prices	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO ED2					Total RIIO-ED2
			2023/24	2024/25	2025/26	2026/27	2027/28	
Reinforcement of the Network	28	63	44	45	62	74	89	314
Non Load Network Investment	99	108	105	109	113	109	107	542
Network Operating Costs	78	65	67	68	64	65	63	327
Engineering Management	72	76	76	76	76	76	76	380
Corporate Activities	15	15	15	15	15	15	15	75
Workforce Resilience	9	8	8	8	8	8	8	39
Vehicles, IT, Property & Engineering Equipment	39	52	54	58	52	50	48	261
Network Innovation Allowance	0	0	0	0	0	0	0	1
Atypicals	3	0	0	0	0	0	0	0
TOTAL EXPENDITURE	343	388	370	378	390	396	406	1,940
Indirect Allocations	-19	-28	-28	-29	-28	-27	-27	-139
Totex Adjustments	-4	-4	-4	-4	-4	-4	-4	-19
TOTEX	321	356	338	345	358	365	375	1,782

Source: WPD ED2 2nd draft business plan

Figure 19: WPD East Midlands – Core expenditure forecast

East Midlands - Expenditure funded through DUoS								
£m at 2020/21 prices	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO ED2					Total RIIO-ED2
			2023/24	2024/25	2025/26	2026/27	2027/28	
Reinforcement of the Network	36	59	46	53	61	63	73	297
Non Load Network Investment	90	108	103	104	115	109	107	538
Network Operating Costs	74	69	71	71	67	68	67	345
Engineering Management	72	75	75	74	75	75	75	373
Corporate Activities	15	15	15	15	15	15	15	75
Workforce Resilience	10	10	9	10	11	11	11	51
Vehicles, IT, Property & Engineering Equipment	39	56	55	61	57	54	51	279
Network Innovation Allowance	0	0	0	0	0	0	0	1
Atypicals	2	0	0	0	0	0	0	0
TOTAL EXPENDITURE	338	392	375	389	400	395	400	1,959
Indirect Allocations	-19	-29	-29	-29	-29	-29	-29	-145
Totex Adjustments	-6	-5	-5	-5	-5	-5	-5	-27
TOTEX	314	357	340	354	366	361	366	1,787

Source: WPD ED2 2nd draft business plan

Figure 20: WPD South Wales – Core expenditure forecast

South Wales - Expenditure funded through DUoS								
£m at 2020/21 prices	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO ED2					Total RIIO-ED2
			2023/24	2024/25	2025/26	2026/27	2027/28	
Reinforcement of the Network	7	32	28	28	30	33	40	159
Non Load Network Investment	55	56	52	55	60	58	57	282
Network Operating Costs	36	34	36	36	33	33	33	171
Engineering Management	35	37	36	37	37	37	37	184
Corporate Activities	8	8	8	8	8	8	8	38
Workforce Resilience	6	6	6	6	6	6	5	28
Vehicles, IT, Property & Engineering Equipment	26	33	37	38	35	29	28	167
Network Innovation Allowance	0	0	0	0	0	0	0	1
Atypicals	2	0	0	0	0	0	0	0
TOTAL EXPENDITURE	174	206	202	207	209	203	208	1,030
Indirect Allocations	-11	-13	-13	-13	-13	-13	-13	-66
Totex Adjustments	-3	-3	-3	-3	-3	-3	-3	-15
TOTEX	160	190	186	191	193	187	193	949

Source: WPD ED2 2nd draft business plan

Figure 21: WPD South West – Core expenditure forecast

South West - Expenditure funded through DUoS								
£m at 2020/21 prices	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO ED2					Total RIIO-ED2
			2023/24	2024/25	2025/26	2026/27	2027/28	
Reinforcement of the Network	12	46	35	41	45	53	56	230
Non Load Network Investment	89	103	96	99	108	108	103	514
Network Operating Costs	59	57	59	58	57	56	56	286
Engineering Management	53	56	55	55	56	56	56	278
Corporate Activities	13	13	13	13	13	13	13	64
Workforce Resilience	7	7	7	7	8	7	7	36
Vehicles, IT, Property & Engineering Equipment	37	51	54	56	51	48	46	254
Network Innovation Allowance	0	0	0	0	0	0	0	1
Atypicals	3	0	0	0	0	0	0	0
TOTAL EXPENDITURE	273	333	319	330	337	341	337	1,663
Indirect Allocations	-15	-18	-19	-19	-18	-18	-18	-90
Totex Adjustments	-6	-5	-5	-5	-5	-5	-5	-27
TOTEX	252	309	295	306	313	318	314	1,546

Source: WPD ED2 2nd draft business plan

Our WPD model assumes £5.6bn of totex allowances in ED2

Regulatory pushback to network company proposals is the nature of the beast, and we expect that Ofgem's scrutiny will lead to draft determinations that propose lower totex, from either disallowance, or classification as uncertainty mechanisms. However, the role of electricity distribution in delivering net zero, and the shift that Ofgem made in transmission final determinations vs. its draft determinations, lead us to conclude that any scale back will not be overly draconian. For modelling purposes, we assume that all expenditure categories are scaled back by 10%, with the exception of 'reinforcement of the network' and 'vehicles, IT, property & engineering equipment', which we scale back by 5%. This leads us to suggest ED2 totex of £5.6bn, a 6% increase on ED1, but an 8% reduction on WPD's draft business plan, with annual granularity at an individual network level set out below. To put this into context, final determinations for transmission and gas distribution saw a c.17% reduction in allowed totex vs. business plans, albeit with lower reductions for gas distribution of c.10%.

Figure 22: RIIO-ED2 estimated totex (£m) for modelling purposes

	WPD	←	Investec					→	
	Average per year in RIIO-ED1	Average per year in RIIO-ED2	Spend profile in RIIO-ED2					Total RIIO-ED2	ED2 vs. ED1
Network			2023/24E	2024/25E	2025/26E	2026/27E	2027/28E		
West Midlands	321	327	308	317	328	336	344	1,633	2%
East Midlands	314	327	311	324	336	331	335	1,637	4%
South Wales	160	175	172	176	177	172	176	873	9%
South West	252	283	270	279	288	291	288	1,417	12%
Total	1,046	1,112	1,061	1,096	1,129	1,130	1,143	5,559	6%

Source: WPD, Investec Securities estimates

3. Cost of equity of 4.65%

We draw conclusions from the CMA PR19 decision…

We have been consistent in our view that the outperformance wedge in Ofgem's RIIO-2 final determinations for transmission and gas distribution lacks validity, and that energy is deserving of a higher return than water. Every transmission and gas distribution company has appealed this element of the price control (and the cost of equity), and we find support for our view, and those of the network companies, in the detail of the CMA's decision in respect of the PR19 appeals in water.

The CMA published its Final Report in respect of the PR19 appeals on 17th March (LINK), setting a wholesale WACC of 3.12% CPIH real (Figure 23), based on an appointee cost of equity of 4.73% CPHI real, or 4.53% at the wholesale level, after adjusting for the retail margin. In the report, the CMA highlighted (paragraph 9.1236) three key considerations for setting a point estimate for the WACC:

"(a) The financing duty: the cost of capital needs to be sufficient for an efficient firm to finance the performance of its statutory functions;

(b) The consumer objective: the protection of consumers; and

(c) The resilience objective: if significant investment is required in resilience, the cost of capital needs to be sufficient to provide incentives to the firms to meet those investment requirements."

Adding (paragraph 9.1402) that:

"…*we consider that there are a number of benefits from choosing a point estimate of the cost of equity above the middle of the range. Our view is that this will result in an appropriate balance of risk in the round across the determination, including addressing the level of risk to investment in the sector associated with setting the cost of equity too low,*…";

And, arriving (paragraph 9.1404) at

"…*our final decision is to use a cost of equity point estimate 0.25% above the middle of our 3.76% to 5.21% range, which results in a point estimate of 4.73%.*"

Figure 23: CMA final determination in water PR19 appeals

WACC Metrics	Nominal	CPIH-Real	RPI-Real
TMR	8.94%	6.81%	5.85%
RFR	0.63%	-1.34%	-2.22%
ERP	8.31%	8.15%	8.07%
Unlevered beta	0.29	0.29	0.29
Debt beta	0.075	0.075	0.075
Equity beta	0.71	0.71	0.71
Cost of new debt	2.19%	0.19%	-0.70%
Cost of embedded debt	4.52%	2.47%	1.56%
Proportion of new debt	17%	17%	17%
Issuance and Liquidity costs	0.10%	0.10%	0.10%
Impact of picking a point estimate above the midpoint	0.25%	0.25%	0.25%
Pre-tax cost of debt	4.22%	2.18%	1.27%
Post-tax cost of equity	6.82%	4.73%	3.79%
Notional Gearing	60%	60%	60%
Appointee Allowed Return on Capital (Vanilla)	5.26%	3.20%	2.28%
Retail margin adjustment	0.08%	0.08%	0.08%
Wholesale Allowed Return on Capital (Vanilla)	5.18%	3.12%	2.20%

Source: CMA (Investec highlights)

…we eliminate the outperformance wedge and assume a 4.65% CPIH real allowed return on equity

We view the CMA's observations as hugely significant for the electricity distribution sector. As we have discussed above, decarbonisation of heat and transport is set to be a driver of investment in distribution networks, with resilience a material delta between RIIO-ED1 and RIIO-ED2. If aiming up is appropriate for the water sector, then surely it is even more so for electricity distribution? Ofgem's 4.65% working assumption for the cost of equity in RIIO-ED2 is merely the 4.55% cost of equity set in December's final determination for transmission and gas distribution updated for changes in the risk free rate, and therefore can be considered to be at the midpoint of Ofgem's range derived from the CAPM. So not only does Ofgem not aim up, it takes an additional step and deducts 25bp in anticipation of outperformance to arrive

at a working assumption of 4.40% for the allowed cost of equity. We struggle to see how this meets the CMA's resilience objective, and expect the CMA to find in favour of the RIIO-2 appellants in respect of the outperformance wedge. In modelling WPD we eliminate this, but with a 4.65% cost of equity above the wholesale cost of equity for water of 4.53%, we err towards prudence and have not aimed up. Assuming notional gearing of 60%, this leads us to a modelling assumption of a 3.11% allowed cost of capital across ED2.

Figure 24: Ofgem working assumptions for the RIIO-ED2 allowed return in CPIH terms

Price base	Component	2024	2025	2026	2027	2028	Average 2024-28
CPIH	Allowed return on debt	2.424%	2.277%	2.108%	1.910%	1.715%	2.087%
	Cost of equity	4.612%	4.634%	4.651%	4.669%	4.686%	4.650%
	Expected outperformance	0.250%	0.250%	0.250%	0.250%	0.250%	0.250%
	Allowed return on equity	4.362%	4.384%	4.401%	4.419%	4.436%	4.400%
	Notional gearing			60%			
	Allowed return on capital	3.199%	3.120%	3.025%	2.913%	2.803%	3.012%
	Allowed return on capital - Investec						3.112%

Source: Ofgem, Investec Securities estimates

The announced transactions are significantly earnings enhancing…

Announced transactions earnings enhancing, pro-forma too

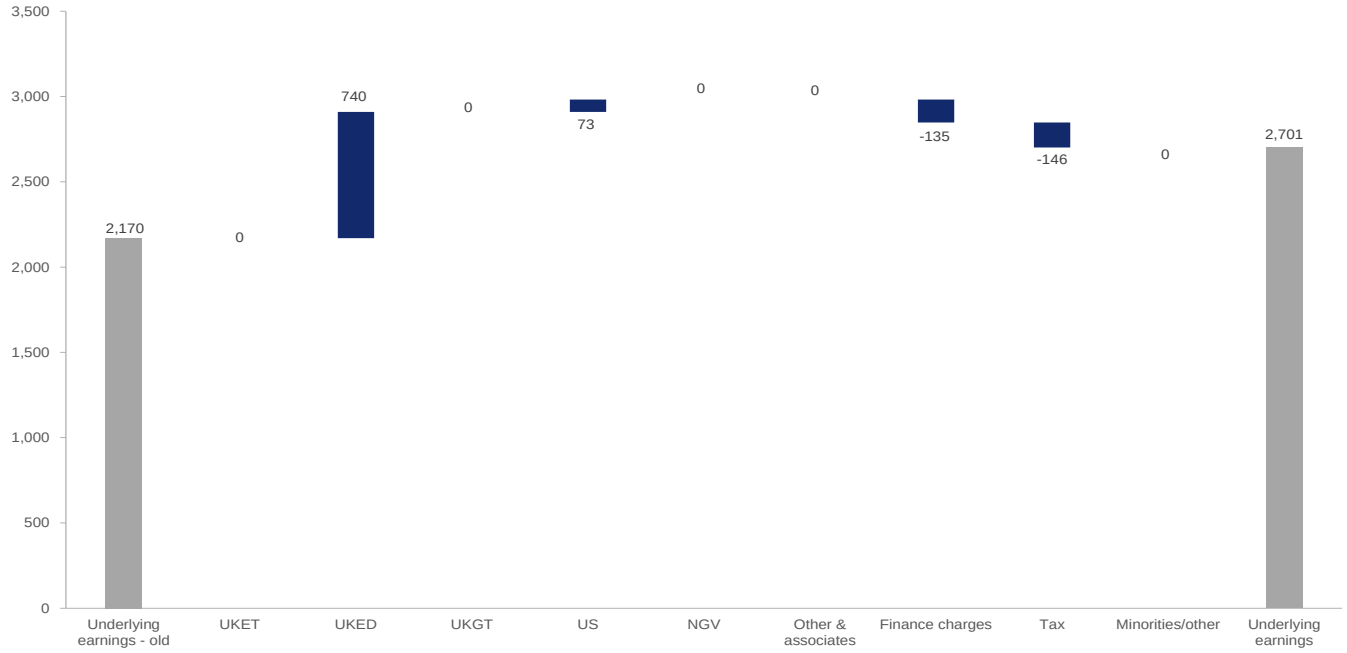
The portfolio pivot leads to significant changes to our estimates, with a summary set out in Figure 25, and a bridge from our previous FY22E set out in Figure 26. We provide more granularity at a divisional level in Figure 26. With National Grid funding the WPD purchase with bridge financing priced at a spread of 0.55% to 1.5%, our estimates suggest that the two announced transactions are significantly earnings accretive, more so in FY22E, where we still include NECO, but without a depreciation charge. We are significantly ahead of consensus, although the relevance of such a comparison is limited, given the likely variety of approaches to modelling the pivot.

Figure 25: National Grid – changes to estimates and comparison to consensus

		2021E	2022E	2023E	2024E
Revenue - Investec	[£m]	14,190	15,739	15,666	15,942
Revenue - old	[£m]	14,249	14,710	15,123	15,376
Change	[%]	-0.4%	7.0%	3.6%	3.7%
Consensus revenue	[£m]	14,533	15,290	15,813	16,660
Investec Securities (below)/above	[%]	-2.4%	2.9%	-0.9%	-4.3%
EBITDA - Investec	[£m]	4,859	6,418	7,151	7,249
EBITDA - old	[£m]	4,863	5,581	5,945	6,056
Change	[%]	-0.1%	15.0%	20.3%	19.7%
Consensus EBITDA	[%]	4,962	5,749	6,189	6,462
Investec Securities (below)/above	[%]	-2.1%	11.6%	15.6%	12.2%
EBIT - Investec	[£m]	3,104	4,582	5,165	5,188
EBIT - old	[£m]	3,098	3,783	4,080	4,126
Change	[%]	0.2%	21.1%	26.6%	25.7%
Consensus EBIT	[£m]	3,202	3,776	4,095	4,360
Investec Securities (below)/above	[%]	-3.0%	21.4%	26.1%	19.0%
EPS - Investec	[p]	51.99	75.47	77.65	76.08
EPS - old	[p]	51.72	60.62	62.45	63.63
Change	[%]	0.5%	24.5%	24.3%	19.6%
Consensus EPS	[p]	52.95	61.05	64.20	68.33
Investec Securities (below)/above	[%]	-1.8%	23.6%	21.0%	11.3%
DPS - Investec	[p]	49.59	50.33	51.34	52.37
DPS - old	[p]	49.59	50.33	51.34	52.37
Change	[%]	0.0%	0.0%	0.0%	0.0%
Consensus DPS	[p]	49.54	50.55	51.61	52.45
Investec Securities (below)/above	[%]	0.1%	-0.4%	-0.5%	-0.2%

Source: Factset consensus on 29th April, Investec Securities estimates

Figure 26: National Grid – earnings bridge (FY22E, £m)



Source: Investec Securities estimates

…but the NGG disposal will dilute, pro-forma pointing c.10% accretion on an ongoing basis

However, given National Grid's intention to sell a majority stake in NGG, the basis on which we have presented our estimates is merely a staging post. Additionally, we present pro-forma estimates based on an assumption that 100% of NGG is disposed on 1st April 2022 at a 40% premium to our estimate of FY22E RAV. This suggests that pivot in its entirety is c.10% accretive on an ongoing basis.

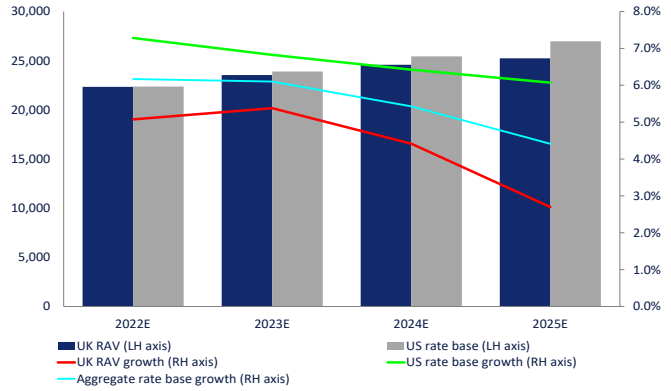
Figure 27: Pro forma assuming sale of 100% of NGG at 40% premium to FY22E RAV

		2023E	2024E	2025E
NGG premium to 22E RAV	[%]	40%		
Disposal EV at 100%	[£m]	9,086		
NGG operating profit eliminated	[£m]	(523)	(549)	(475)
Interest benefit - bridge	[£m]	75	75	75
Interest benefit - non bridge	[£m]	139	139	139
NGG pre-tax eliminated	[£m]	(309)	(335)	(261)
Tax rate	[%]	19%	25%	25%
NGG post-tax eliminated	[£m]	(250)	(252)	(196)
EPS impact	[p]	(6.9)	(6.8)	(5.2)
Pro-forma EPS	[p]	70.8	69.2	70.1
EPS old	[p]	62.5	63.6	63.4
Pro-forma accretion	[%]	13.3%	8.8%	10.7%

Source: Investec Securities estimates

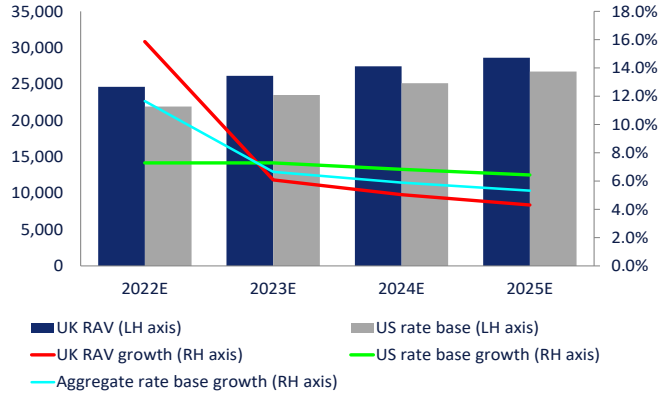
Consistent with the pivot being earnings accretive, our estimates also suggest a higher level of asset growth post pivot, with annual growth of 5%+ through to 2025E.

Figure 28: Slower growth gas replaced by...



Source: Investec Securities estimates

Figure 29: ...higher growth electricity distribution



Source: Investec Securities estimates

Target price raised to 990p, re-iterating our Buy rating

WPD, the US and debt are the largest moving parts in our updated valuation…

Our updated forecasts feed through to our valuation. The most marked changes are the inclusion of electricity distribution, a revised valuation of the US business, including the disposal of NECO, and the debt movement associated with the transactions.

- **Electricity distribution** – we value WPD at a premium of 38% to FY22E RAV, which adds 342p share to our valuation at enterprise value
- **US business** – we have assumed that the NECO disposal completes at the end of March 2022, and have eliminated it from our valuation. We have also taken the opportunity to revisit the multiple we apply to the US assets. The regulated US peer group trades on a trailing multiple of 2.0x book, which we suggest implies a c.80% premium to the rate base. We continue to take a prudent approach and assume a discount, but move our applied premium up to 70% from 60%. The net position is that our US valuation moves down by 64p/share.
- **Net debt** – the impact on FY22E net debt of the WPD acquisition, NECO disposal, and other movements is equivalent to 276p/share, affecting our valuation in an equal and opposite amount.

….we raise our target price to 990p, and re-iterate our Buy rating

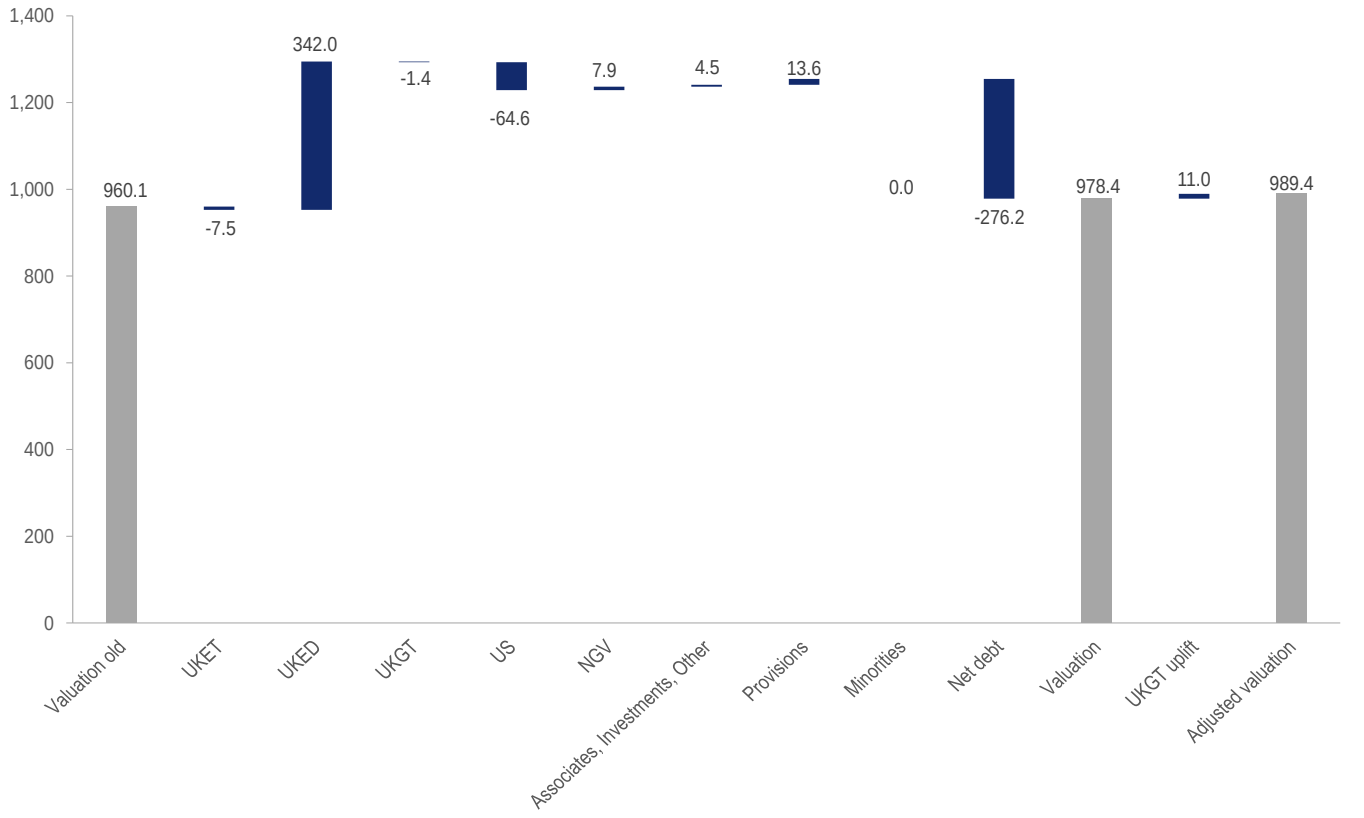
We have also incorporated an uplift to our NGG valuation on the assumption that an acquirer would be willing to pay a premium for a controlling stake. We have applied the uplift to 51% of NGG based on a 40% premium to FY22E RAV. This adds 11p/share, with the net result that we increase our target price to 990p. This suggests a total return of c.16% over 12 months, and we re-iterate our Buy rating.

Figure 30: National Grid – sum-of-the-parts valuation

Activity		Notes	VALUATION (£m)	Value per share (p)	% of group
UK Electricity Transmission	Transmission	DCF at WACC of 4.0%, equivalent to 25% premium to 2022E RAV	18,768	521	23.0%
	Other regulated assets	Book value 2020A	(364)	(10)	-0.4%
	UK Electricity Transmission total	Equivalent to 10.3x 2022E EV/EBITDA	18,404	511	22.5%
UK Electricity Distribution	Distribution	DCF at WACC of 4.0%, equivalent to 38% premium to 2022E RAV	12,083	335	14.8%
	Other activities	8.0x underlying 2022E EBITDA	240	7	0.3%
	UK Electricity Distribution total	Equivalent to 9.3x 2022E EV/EBITDA	12,323	342	15.1%
UK Gas Transmission	Transmission	DCF at WACC of 4.0%, equivalent to 29% premium to 2022E RAV	8,310	231	10.2%
	Other regulated assets	Book value 2020A	7	0	0.0%
	UK Gas Transmission total	Equivalent to 11.3x 2022E EV/EBITDA	8,317	231	10.2%
US Regulated	Transmission, Distribution, Generation	70% premium to US rate base at 2022E	33,425	928	40.9%
	Other regulated assets	Book value 2020A, adjusted for FX	1,988	55	2.4%
	US Regulated total	Equivalent to 13.7x 2022E EV/EBITDA	35,413	983	43.3%
NGV & Other	Metering	DCF at WACC of 7.0%	917	25	1.1%
	Grain LNG	DCF at WACC of 7.0%	1,903	53	2.3%
	Interconnectors	DCF at WACC of 4.0%	2,481	69	3.0%
	Property	DCF at WACC of 7.0%	586	16	0.7%
	Other	8.0x 2022E EV/EBITDA	(448)	(12)	-0.5%
	Other businesses total	Equivalent to 12.8x 2022E EV/EBITDA	5,440	151	6.7%
ENTERPRISE VALUE - operational		Equivalent to 12.4x 2022E EV/EBITDA	79,897	2,217	97.8%
Associates & other		Book Value 2022E	1,123	31	1.4%
Financial Investments		Book Value 2022E	705	20	0.9%
ENTERPRISE VALUE		Equivalent to 12.7x 2022E EV/EBITDA	81,725	2,268	100.0%
Pension provisions		Book Value 2022E	(761)	(21)	
Environmental provisions		Book Value 2022E	(2,238)	(62)	
Other provisions		50% of book value 2022E	(95)	(3)	
Contract liabilities		Book value of long-term liabilities at 2020A	(1,082)	(30)	
Minorities		Book Value 2022E	(23)	(1)	
Net debt		Book value 2022E	(42,270)	(1,173)	
EQUITY VALUE			35,257	978	
Number of shares less treasury shares		Year end no of shares 2022E		3,604	
EQUITY VALUE PER SHARE				978	
Uplift from assumed disposal of NGGT		51% disposal at 40% premium to 2022E RAV	396	11	
ADJUSTED EQUITY VALUE			35,652	989	
TARGET PRICE				990	

Source: Company. Investec Securities estimates

Figure 31: National Grid – valuation bridge (p/share)



Source: Investec Securities estimates

Figure 32: National Grid – summary operating forecasts (2019A-2025E)

Year-end 31st March	[UNIT]	2019A	2020A	2021E	2022E	2023E	2024E	2025E	NOTES
Revenue									
UK Electricity Transmission	[£m]	3,351	3,702	3,407	3,686	3,753	3,674	3,680	21E/20A: -8.0%, 5yr cagr: -0.1%
UK Electricity Distribution	[£m]	0	0	0	1,217	1,878	1,940	1,979	
UK Gas Transmission	[£m]	896	927	967	1,185	1,202	1,200	1,132	21E/20A: 4.3%, 5yr cagr: 4.1%
UK Gas Distribution	[£m]	0	0	0	0	0	0	0	
US Regulated	[£m]	9,846	9,205	9,114	8,948	8,111	8,387	8,666	21E/20A: -1.0%, 5yr cagr: -1.2%
NGV & Other	[£m]	876	736	732	733	752	771	797	21E/20A: -0.5%, 5yr cagr: 1.6%
Other	[£m]	(36)	(30)	(30)	(30)	(30)	(30)	(30)	
National Grid turnover	[£m]	14,933	14,540	14,190	15,739	15,666	15,942	16,224	21E/20A: -2.4%, 5yr cagr: 2.2%
EBITDA									
UK Electricity Transmission	[£m]	1,506	1,789	1,523	1,795	1,856	1,769	1,768	21E/20A: -14.9%, 5yr cagr: -0.2%
UK Electricity Distribution	[£m]	0	0	0	880	1,448	1,452	1,464	
UK Gas Transmission	[£m]	484	519	569	738	751	746	674	21E/20A: 9.7%, 5yr cagr: 5.4%
UK Gas Distribution	[£m]	0	0	0	0	0	0	0	
US Regulated	[£m]	2,424	2,252	2,346	2,581	2,655	2,821	2,990	21E/20A: 4.2%, 5yr cagr: 5.8%
NGV & Other	[£m]	626	387	422	424	441	460	484	21E/20A: 9.0%, 5yr cagr: 4.6%
Other	[£m]	0	0	0	0	0	0	0	
National Grid EBITDA	[£m]	5,040	4,947	4,859	6,418	7,151	7,249	7,381	21E/20A: -1.8%, 5yr cagr: 8.3%
ADJUSTED OPERATING PROFIT									
UK Electricity Transmission	[£m]	1,015	1,320	1,025	1,286	1,337	1,244	1,239	21E/20A: -22.3%, 5yr cagr: -1.3%
UK Electricity Distribution	[£m]	0	0	0	727	1,206	1,198	1,197	
UK Gas Transmission	[£m]	303	348	393	557	563	549	475	21E/20A: 12.9%, 5yr cagr: 6.4%
UK Gas Distribution	[£m]	0	0	0	0	0	0	0	
US Regulated	[£m]	1,724	1,397	1,468	1,799	1,835	1,959	2,084	21E/20A: 5.1%, 5yr cagr: 8.3%
NGV & Other	[£m]	400	242	218	213	224	238	261	21E/20A: -9.9%, 5yr cagr: 1.5%
Other	[£m]	0	0	0	0	0	0	0	
National Grid Operating Profit	[£m]	3,442	3,307	3,104	4,582	5,165	5,188	5,256	21E/20A: -6.1%, 5yr cagr: 9.7%
UNDERLYING OPERATING PROFIT									
UK Electricity Transmission	[£m]	1,092	1,174	1,095	1,286	1,267	1,244	1,239	21E/20A: -6.7%, 5yr cagr: 1.1%
UK Electricity Distribution	[£m]	0	0	0	740	1,142	1,182	1,197	
UK Gas Transmission	[£m]	341	402	433	557	523	549	475	21E/20A: 7.7%, 5yr cagr: 3.4%
UK Gas Distribution	[£m]	0	0	0	0	0	0	0	
US Regulated	[£m]	1,594	1,636	1,468	1,799	1,835	1,959	2,084	21E/20A: -10.3%, 5yr cagr: 5.0%
NGV & Other	[£m]	400	242	218	213	224	238	261	21E/20A: -9.9%, 5yr cagr: 1.5%
Other	[£m]	0	0	0	0	0	0	0	
National Grid Underlying Operating Profit	[£m]	3,427	3,454	3,214	4,596	4,992	5,172	5,256	21E/20A: -6.9%, 5yr cagr: 8.8%

Source: Company, Investec Securities estimates

Figure 33: National Grid – summary P&L (2019A-2025E)

Year-end 31st March	[UNIT]	2019A	2020A	2021E	2022E	2023E	2024E	2025E	NOTES
Sales	[£m]	14,933	14,540	14,190	15,739	15,666	15,942	16,224	21E/20A: -2.4%, 5yr cagr: 2.2%
EBITDA	[£m]	5,040	4,947	4,859	6,418	7,151	7,249	7,381	21E/20A: -1.8%, 5yr cagr: 8.3%
ADJUSTED EBIT	[£m]	3,442	3,307	3,104	4,582	5,165	5,188	5,256	21E/20A: -6.1%, 5yr cagr: 9.7%
UNDERLYING EBIT	[£m]	3,427	3,454	3,214	4,596	4,992	5,172	5,256	21E/20A: -6.9%, 5yr cagr: 8.8%
Exceptional items	[£m]	(572)	(527)	0	0	0	0	0	
Disposal gain	[£m]	0	0	0	1,100	0	0	0	
GROUP PBIT	[£m]	2,870	2,780	3,104	5,682	5,165	5,188	5,256	21E/20A: 11.7%, 5yr cagr: 13.6%
Associates and income from investments	[£m]	40	87	83	87	91	96	98	21E/20A: -5.0%, 5yr cagr: 2.3%
Net interest including discounting	[£m]	(1,069)	(1,113)	(993)	(1,246)	(1,495)	(1,566)	(1,634)	21E/20A: -10.8%, 5yr cagr: 8.0%
GROUP PBT	[£m]	1,801	1,667	2,111	4,437	3,671	3,622	3,622	21E/20A: 26.6%, 5yr cagr: 16.8%
Net taxation	[£m]	(339)	(480)	(443)	(732)	(808)	(905)	(905)	21E/20A: -7.6%, 5yr cagr: 13.5%
Profit from discontinued operations	[£m]	12	(9)	0	0	0	0	0	
Goodwill amortisation	[£m]	0	0	0	0	0	0	0	
PAT	[£m]	1,514	1,265	1,750	3,791	2,954	2,812	2,814	21E/20A: 38.4%, 5yr cagr: 17.3%
Minorities	[£m]	(3)	(1)	(1)	(1)	(1)	(1)	(1)	21E/20A: 5.0%, 5yr cagr: 5.0%
Hybrid charge	[£m]	0	0	0	0	0	0	0	
Profit for year (reported)	[£m]	1,511	1,264	1,749	3,790	2,953	2,811	2,813	21E/20A: 38.4%, 5yr cagr: 17.3%
Profit for year (Investec Securities)	[£m]	1,998	2,015	1,836	2,701	2,818	2,799	2,813	21E/20A: -8.9%, 5yr cagr: 6.9%
Dividends	[£m]	(1,746)	(1,836)	(1,898)	(1,951)	(2,015)	(2,082)	(2,152)	
Retained Profit	[£m]	(235)	(572)	(149)	1,840	938	728	660	
KEY PER SHARE DATA									
EPS (normalised)	[p/sh]	59.0	58.2	52.0	75.5	77.7	76.1	75.4	21E/20A: -10.7%, 5yr cagr: 5.3%
DPS	[p/sh]	47.3	48.6	49.6	50.3	51.3	52.4	53.41	21E/20A: 2.1%, 5yr cagr: 1.9%
Dividend cover	[x.x]	1.2x	1.2x	1.0x	1.5x	1.5x	1.3x	1.3x	

Source: Company, Investec Securities estimates

Figure 34: National Grid – summary balance sheet (2019A-2025E)

Year-end 31st March	[UNIT]	2019A	2020A	2021E	2022E	2023E	2024E	2025E	NOTES
Fixed assets	[£m]	53,450	59,439	62,680	80,661	84,461	88,048	91,131	
Stock	[£m]	370	549	534	533	487	498	506	
Debtors	[£m]	1,899	1,551	1,514	1,679	1,671	1,701	1,731	
Other assets	[£m]	3,444	1,630	1,630	1,984	1,984	1,984	1,984	
Financial assets	[£m]	2,233	2,071	2,071	2,071	2,071	2,071	2,071	
Short-term liabilities	[£m]	(9,129)	(8,564)	(8,605)	(8,684)	(8,941)	(8,966)	(9,000)	
Special concession accounts	[£m]	0	0	0	0	0	0	0	
Pension obligations	[£m]	(218)	(953)	(1,155)	(761)	(963)	(1,165)	(1,366)	
Environmental and other closure costs	[£m]	(1,827)	(2,325)	(2,281)	(2,238)	(2,198)	(2,159)	(2,121)	
Reserves for contingencies and losses	[£m]	(56)	19	19	(189)	(189)	(189)	(189)	
Deferred tax	[£m]	(3,965)	(4,184)	(4,184)	(4,968)	(4,968)	(4,968)	(4,968)	
Other liabilities	[£m]	(2,574)	(2,927)	(2,927)	(4,716)	(4,716)	(4,716)	(4,716)	
Long -term financial debt	[£m]	(24,258)	(26,722)	(27,799)	(40,561)	(42,462)	(44,670)	(46,412)	
Net assets	[£m]	19,369	19,584	21,497	24,811	26,237	27,470	28,651	
Capital Stock	[£m]	458	470	470	470	470	470	470	
Treasury Stock	[£m]	0	0	0	0	0	0	0	
P&L reserve	[£m]	21,814	21,710	21,561	23,401	24,339	25,067	25,727	
Currency translation and other	[£m]	(2,923)	(2,618)	(557)	918	1,405	1,909	2,430	
Minority interests	[£m]	20	22	22	23	23	23	24	
Total Shareholders funds	[£m]	19,369	19,584	21,497	24,811	26,237	27,470	28,651	
Net debt	[£m]	(26,529)	(28,590)	(29,667)	(42,270)	(44,171)	(46,379)	(48,121)	
Economic net debt	[£m]	(28,574)	(31,868)	(33,103)	(45,269)	(47,332)	(49,702)	(51,608)	
Net debt/EBITDA	[x]	5.3	5.8	6.1	6.6	6.2	6.4	6.5	
Net economic debt/EBITDA	[x]	5.7	6.4	6.8	7.1	6.6	6.9	7.0	

Source: Company, Investec Securities estimates

Figure 35: National Grid – summary cash flow (2019A-2025E)

Year-end 31st March	[UNIT]	2019A	2020A	2021E	2022E	2023E	2024E	2025E	NOTES
Operating cashflow after working capital	[£m]	4,393	4,817	4,935	6,303	7,450	7,221	7,364	
Dividend received	[£m]	136	148	83	87	91	96	98	
Interest	[£m]	(914)	(957)	(880)	(1,135)	(1,385)	(1,458)	(1,528)	
Tax	[£m]	(75)	(199)	(443)	(732)	(808)	(905)	(905)	
Capex and acquisitions	[£m]	(3,226)	(5,376)	(4,996)	(13,219)	(5,785)	(5,649)	(5,209)	
Disposals	[£m]	56	2,033	0	2,700	0	0	0	
Dividends paid	[£m]	(1,160)	(892)	(1,378)	(1,424)	(1,464)	(1,512)	(1,563)	
Other	[£m]	713	247	1,602	(5,341)	0	0	(0)	
Change in cash (actuals), net debt (estimates)	[£m]	(77)	(179)	(1,077)	(12,761)	(1,901)	(2,208)	(1,742)	
Free cash flow pre dividends	[£m]	(381)	(1,233)	(1,320)	(928)	(529)	(791)	(277)	
Free cash flow post dividends	[£m]	(1,541)	(2,125)	(2,698)	(2,352)	(1,992)	(2,303)	(1,840)	
FFO/net debt	[%]	14%	12%	12%	10%	12%	10%	10%	
RCF/net debt	[%]	9%	9%	9%	8%	9%	8%	8%	

Source: Company, Investec Securities estimates

Figure 36: National Grid – summary capex (2019A-2025E)

Year-end 31st March	[UNIT]	2019A	2020A	2021E	2022E	2023E	2024E	2025E	NOTES
UK Electricity Transmission	[£m]	925	1,043	1,159	1,544	1,551	1,372	1,210	
UK Electricity Distribution	[£m]	0	0	0	563	867	884	902	
UK Gas Transmission	[£m]	308	249	261	242	353	379	172	
US Regulated	[£m]	2,650	3,228	2,984	2,539	2,590	2,642	2,695	
NGV & Other	[£m]	496	728	528	476	424	372	231	
Corporate & adjustments	[£m]	0	0	0	0	0	0	0	
DIVISIONAL CAPEX	[£m]	4,379	5,248	4,932	5,364	5,785	5,649	5,209	
Equity investment, funding, JV loans	[£m]	127	157	64	64	0	0	0	
TOTAL OTHER CAPEX	[£m]	127	157	64	64	0	0	0	
TOTAL CAPEX	[£m]	4,506	5,405	4,996	5,428	5,785	5,649	5,209	

Source: Company, Investec Securities estimates

Summary Financials (£m)

Year end: 31 March

Income Statement	2019	2020	2021E	2022E	2023E
Revenue	14,933	14,540	14,190	15,739	15,666
EBITDA	5,040	4,947	4,859	6,418	7,151
Depreciation and amortisation	-1,598	-1,640	-1,755	-1,835	-1,986
Operating profit	3,442	3,307	3,104	4,582	5,165
Other income	40	87	83	87	91
Net interest	-1,069	-1,113	-993	-1,246	-1,495
Share-based-payments	0	0	0	0	0
PBT (normalised)	2,413	2,281	2,194	3,423	3,762
Impairment of acquired intangibles	0	0	0	0	0
Non-recurring items/exceptionals	-572	-527	0	1,100	0
PBT (reported)	1,841	1,754	2,194	4,523	3,762
Taxation	-339	-480	-443	-732	-808
Minorities & preference dividends	-3	-1	-1	-1	-1
Discontinued/assets held for sale	12	-9	0	0	0
Net Income (normalised)	1,998	2,015	1,836	2,701	2,818
Attributable profit	1,511	1,264	1,749	3,790	2,953
EPS (reported)	44.6	36.5	49.5	105.9	81.4
EPS (norm., cont.) (p)	59.0	58.2	52.0	75.5	77.7
DPS (p)	47.3	48.6	49.6	50.3	51.3
Average number of group shares - FD (m)	3,401	3,478	3,549	3,596	3,645
Average number of group shares (m)	3,386	3,461	3,532	3,579	3,628
Total number of shares in issue (m)	3,687	3,780	3,827	3,875	3,925

Cash Flow	2019	2020	2021E	2022E	2023E
Operating profit	3,442	3,307	3,104	4,582	5,165
Depreciation & amortisation	1,598	1,640	1,755	1,835	1,986
Other cash and non-cash movements	-	-	-	-	-
Change in working capital	-193	8	31	-1,263	247
Operating cash flow	4,393	4,817	4,935	6,303	7,450
Interest	-914	-957	-880	-1,135	-1,385
Tax paid	-75	-199	-443	-732	-808
Dividends from associates and JVs	136	148	83	87	91
Cash flow from operations	3,540	3,809	3,694	4,523	5,348
Maintenance capex	-3,785	-4,894	-4,932	-5,364	-5,785
Free cash flow	-245	-1,085	-1,238	-841	-437
Expansionary capex	-	-	-	-	-
Exceptionals and discontinued operations	-	-	-	-	-
Other financials	713	247	1,602	-5,341	0
Acquisitions	559	-482	-64	-7,855	0
Disposals	56	2,033	0	2,700	0
Net share issues	0	0	0	0	0
Dividends paid	-1,160	-892	-1,378	-1,424	-1,464
Change in net cash	-3,527	-2,061	-1,077	-12,602	-1,901
Net cash/(debt)	-26,529	-28,590	-29,667	-42,270	-44,171
FCFPS (p)	(7.2)	(31.3)	(35.0)	(23.5)	(12.1)

Balance Sheet	2019	2020	2021E	2022E	2023E
Property plant and equipment	43,913	48,770	51,947	66,241	70,041
Intangible assets	6,953	7,528	7,528	10,831	10,831
Investments and other non current assets	1,539	1,892	1,956	2,184	2,184
Cash and equivalents	252	73	73	73	73
Other current assets	5,605	3,637	3,585	4,095	4,041
Total assets	58,262	61,900	65,089	83,425	87,170
Total debt	-26,781	-28,663	-29,740	-42,343	-44,244
Preference shares	0	0	0	0	0
Other long term liabilities	-7,587	-8,588	-8,544	-11,282	-11,242
Provisions & other current liabilities	-4,307	-4,112	-4,153	-4,227	-4,484
Pension deficit and other adjustments	-218	-953	-1,155	-761	-963
Total liabilities	-38,893	-42,316	-43,592	-58,613	-60,933
Net assets	19,369	19,584	21,497	24,811	26,237
Shareholder's equity	19,349	19,562	21,475	24,789	26,214
Minority interests	20	22	22	23	23
Total equity	19,369	19,584	21,497	24,811	26,237
Net working capital	3,201	5,842	5,811	6,319	6,073
NAV per share (p)	524.7	517.5	561.1	639.6	667.8

Source: Company accounts, Investec Securities estimates

Calendarised Valuation

Year end: 31 March

	2019	2020	2021E	2022E
Calendar PE (x)	15.4	16.7	12.9	11.6
Calendar Price/BOOK (x)	1.7	1.6	1.4	1.4
Adj. Calendar EV/sales (x)	4.6	4.7	4.4	4.3
Adj. Calendar EV/EBITDA (x)	13.6	13.7	11.1	9.6
FCF yield (%)	(2.8)	(3.8)	(2.9)	(1.7)
Dividend yield (%)	5.4	5.5	5.6	5.7

Source: Company accounts, Investec Securities estimates

Ratios and Metrics

Year end: 31 March

Ratios and metrics	2019	2020	2021E	2022E	2023E
Revenue growth (y-on-y) (%)	(2.1)	(2.6)	(2.4)	10.9	(0.5)
EBITDA growth (y-on-y) (%)	1.1	(1.8)	(1.8)	32.1	11.4
Net income (normalised) growth (yoy)	(3.0)	0.9	(8.9)	47.1	4.3
EPS (normalised) growth (y-on-y) (%)	(0.9)	(1.3)	(10.7)	45.2	2.9
FCFPS growth (y-on-y) (%)					
NAVPS growth (y-on-y) (%)	1.4	(1.4)	8.4	14.0	4.4
DPS growth (y-on-y) (%)	3.1	2.6	2.1	1.5	2.0
Interest cover (x)	3.2	3.0	3.1	3.7	3.5
Net debt/EBITDA (x)	5.3	5.8	6.1	6.6	6.2
Net debt/equity (%)	137.0	146.0	138.0	170.4	168.4
Net gearing (%)	57.8	59.3	58.0	63.0	62.7
Dividend cover (x)	1.2	1.2	1.0	1.5	1.5
EBITDA margin (%)	33.8	34.0	34.2	40.8	45.6
EBITA margin (%)	23.0	22.7	21.9	29.1	33.0
ROE (%)	10.3	10.3	8.6	10.9	10.7
ROCE (%)	7.0	6.2	5.5	6.1	6.6
NWC/revenue (%)	21.4	40.2	40.9	40.1	38.8
Tax rate (normalised) (%)	14.0	21.0	20.2	21.4	21.5
Tax rate (reported) (%)	18.4	27.4	20.2	16.2	21.5

Source: Company accounts, Investec Securities estimates

Target Price Basis

Sum-of-the-parts based on divisional DCFs, multiples, and book value.

Key Risks

Regulation, politics, and energy transition.

Disclosures

Third party research disclosures

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	Expected total return 12m performance	All stocks Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 10%	259	71%	120	46%
Hold	0% to 10%	73	20%	2	3%
Sell	less than 0%	32	9%	0	0%

Source: Investec Securities estimates

Stock ratings for Indian stocks — Stock ratings for research produced by Investec Bank plc

	Expected total return 12m performance	All stocks Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 15%	103	63%	1	1%
Hold	5% to 15%	42	26%	0	0%
Sell	less than 5%	19	12%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks — Stock ratings for research produced by Investec Securities Limited

	Expected total return 12m performance	All stocks Count	All stocks % of total	Corporate stocks Count	Corporate stocks % of total
Buy	greater than 15%	45	57%	10	22%
Hold	5% to 15%	24	30%	7	29%
Sell	less than 5%	10	13%	0	0%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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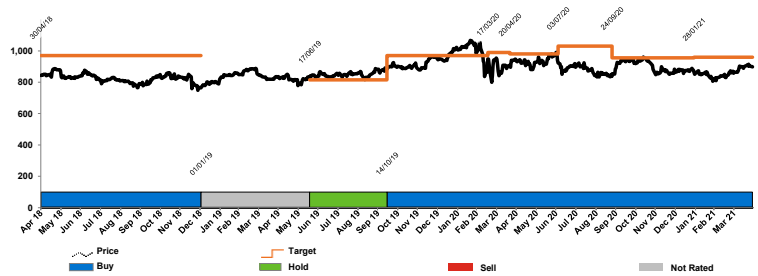
National Grid❹

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National Grid (NG.L) – Rating Plotter as at 29 Apr 2021



Date	Analyst:	Price	Target	Rec
28/01/2021	Martin Young	862.0	960.0	Buy
24/09/2020	Martin Young	838.2	955.0	Buy
03/07/2020	Martin Young	922.2	1030.0	Buy
20/04/2020	Martin Young	908.0	980.0	Buy
17/03/2020	Martin Young	948.5	990.0	Buy
14/10/2019		883.8	970.0	Buy
17/06/2019		829.2	815.0	Hold
01/01/2019		764.2	0.0	Not Rated

Source: Investec Securities / FactSet

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BERNSTEIN

19 March 2021
Target Price Change

European Utilities & Renewables

National Grid PLC

Rating
Outperform

Target Price
NG/.LN **1,020.00 GBp** (1,005.00 *OLD*)

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National Grid: Pivoting to electricity & distribution - Part 2: Further thoughts and Pro Forma analysis

Yesterday National Grid announced that it will swap UK electricity distribution division - WPD for its US Rhode Island operations with PPL and also sell a majority stake in its UK gas transmission (GT) division. In this note, we share further thoughts including a Pro Forma analysis of accretion and balance-sheet impact.

Deal strategically pivots National Grid's UK portfolio towards electricity & specifically electricity distribution: The proportion of assets in electricity will increase from 60% to 70% and even 75% if 100% of UK GT is sold. US assets will be 40%-45% of Group RAV.

Earnings & RAV growth accretion: The deal delivers 10-15% (51% sale of UK GT) and 4-5% (100% sale of UK GT) accretion. Group RAV growth increases from 5% towards 5.5%.

Multiples: The headline multiples to RAV (60%) look high but on a P/E multiple, the deal is more reasonable at [10.5X P/E (net)-14.5X P/E (gross)]. We see little impact on WPD from the move to RIIO ED2 due to a cash return uplift from RPI to CPI shift and a change in the cost of debt allowance.

No implications on dividend policy, balance-sheet and no new equity needed as the asset sales will fund the transaction. Credit ratios remain largely unchanged & no debt (100% sale) to £2.5bn of senior/hybrid debt is needed.

Strategic benefits beyond electricity pivot? National Grid's policy clout in the UK has increased now which could have strategic advantages in a post Brexit UK targeting Net Zero.

Investment Implications

The strategic pivot away from gas towards electricity distribution is the right thing to do. We believe that irrespective of the precise valuation of the UK GT asset, the deal is value creative and delivers even without synergies and cheap new debt. We reiterate our OP rating.

Close Date	18-Mar-2021
NG/.LN Close Price (GBp)	829.00
Target Price (GBp)	1,020.00
Upside/(Downside)	23%
52-Week Low	790.00
52-Week High	998.80
MSDLE15	1,709.36
FYE	Mar
Indicated Div Yield	5.9%
Market Cap (GBP) (M)	29,423
EV (GBP) (M)	59,988

Performance	YTD	1M	6M	12M
Absolute (%)	(4.2)	(3.0)	(2.3)	(12.5)
MSDLE15 (%)	6.0	3.1	13.9	48.1
Relative (%)	(10.1)	(6.2)	(16.1)	(60.6)

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EPS Adjusted	F20A	F21E	F22E
NG/.LN (GBp)	58.23	49.30	**58.33**
OLD			59.57
MSDLE15	71.46	95.97	110.48

Financials	F20A	F21E	F22E	CAGR
EBITDA (M)	5,094	5,045	5,682	5.6%
EBIT (M)	3,454	3,222	3,731	3.9%
Net Prof Be NR Items (M)	2,015	1,745	2,092	1.9%
Economic Net Debt (M)	29,726	31,488	33,276	5.8%
FCF (M)	(1,196)	(539)	(349)	NA
Dividend/Sh	48.57	49.33	50.32	1.8%
Net Debt/EBITDA (x)	5.61	6.25	5.86	2.2%

Valuation Metrics	F20A	F21E	F22E
P/E Adjusted (x)	14.24	16.81	14.21
REL P/E Adjusted (x)	0.60	0.94	0.92
P/FCF (x)	(24.00)	(54.41)	(85.22)
EV/EBITDA (x)	11.78	11.89	10.56
Div Yield (%)	5.86	5.95	6.07

Published 19-Mar-2021 03:05 UTC

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BERNSTEIN TICKER TABLE

Ticker	Rating		18 Mar 2021 Closing Price	Target Price	TTM Rel. Perf.		EPS Adjusted 2020A	EPS Adjusted 2021E	EPS Adjusted 2022E	P/E Adjusted 2020A	P/E Adjusted 2021E	P/E Adjusted 2022E
NG/.LN	O	GBp	829.00	**1,020.00**	(60.6)%	GBp	58.23	49.30	**58.33**	14.24	16.81	14.21
OLD				1,005.00					59.57			
MSDLE15			1,709.36				71.46	95.97	110.48	23.92	17.81	15.47

TARGET PRICE CHANGE / ESTIMATE CHANGE IN BOLD

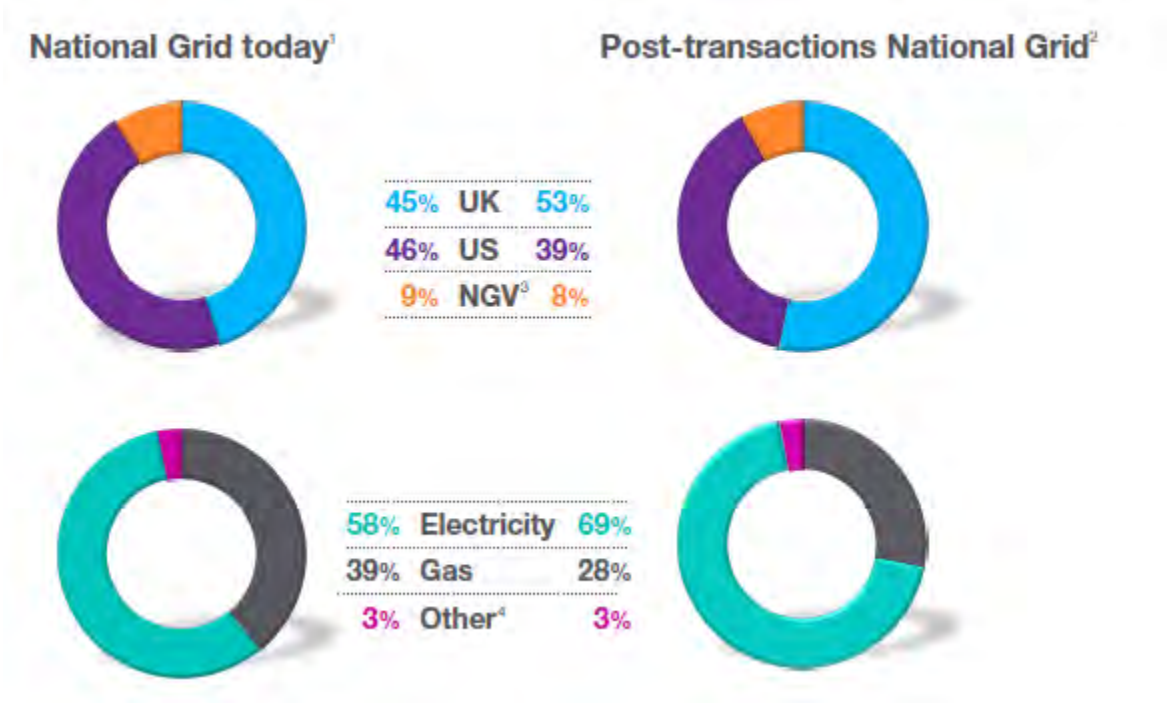
O - Outperform, M - Market-Perform, U - Underperform, N – Not Rated

DETAILS

Yesterday, National Grid plc announced that it has agreed to acquire PPL's UK electricity distribution division - WPD for an equity value of £7.8 bn and that it agreed to sell its US Rhode Island operations to PPL, for an equity value of US$3.8 billion (£2.7 billion). In addition, National Grid announced that it will commence a process later this year for the sale of a majority stake in National Grid Gas – National Grid's UK gas transmission system and gas metering business.

Deal strategically pivot National Grid's UK portfolio towards electricity & specifically electricity distribution: The proportion of National Grid's assets in electricity will increase from 60% to 70%, assuming 50% of UK gas transmission is sold. The proportion skews to 77% ,if 100% of the gas assets are sold. The deal increases long-term growth outlook of the Group with the acquisition of electricity distribution as WPD is UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition, as we have highlighted in European Utilities: Electricity Distribution - Understanding the key drivers of investment in this Green Growth puzzle. The deal contributes to "***Stronger , more certain and more sustainable growth"*** per the CEO.

EXHIBIT 1: **A strategic pivot to Electricity & Distribution**



Source: National Grid

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Multiples: The headline RAV multiples (Exhibit 2) look high in the context of National Grid's own UK multiplies (we calculate the UK assets are trading close to regulated asset value) but the valuation is complicated with the asset swap and the potential sale of UK Gas Transmission assets. National Grid believe that the price reflects their view of embedded growth in the electricity distribution and the scarcity of such strategic assets. **When we run the numbers using forward looking earnings, multiples such as P/E and EV/EBITDA, the numbers look more reasonable (10.5X P/E (net)-14.5X P/E (gross)), particularly factoring the asset swap.** Our updated analysis now also includes the value of the UK Gas metering business, which is part of National Grid Gas and is in scope for the sale process. National Grid will need to raise no new debt (Exhibit 3) if 100% of the UK gas assets are sold and GBP 2.5bn (Exhibit 4) if 51% is sold.

EXHIBIT 2: **Deal dynamics and multiples**

GBP Mn	WPD, Purchase	Narrangset - Sale	Net Proceeds, PPL Deal
Enterprise Value	14,213	3,786	10,427
Debt assumed	(6,413)	(997)	(5,416)
Equity	7,800	2,714	5,086
Regulated Asset Value - March 2022	8,800	2,186	6,614
Premium to RAB	62%	73%	58%
Transaction P/E multiple' FY 22	14.5x	25.6x	10.5x
Transaction EV/EBITDA multiple' FY 22	12.2x	12.5x	9.7x

Source: Company reports, Bernstein analysis* Assumes 8% p.a. rate base growth for Rhode Island division

EXHIBIT 3: **No new debt is required if 100% of UK Gas is sold, GBP Mn**

Net cash payable to PPL	5,086
NGG sales proceeds	(5,080)
Additional debt (Hybrid/Snr debt)	**6**
National Grid Gas Transmission RAV	6,328
Premium to RAB (assumption)	30%
Enterprise Value Transmission	8,227
Metering division (2025 EBITDA 10X multiple)	829
Total National Grid Gas EV	**9,055**
Less: Debt (March'20 level)	(3,975)
NGT equity proceeds (100% stake)	5,080
Stake sold	100%
NGG sales proceeds	5,080

Source: Bernstein analysis and estimates

EXHIBIT 4: **While GBP 2.5bn is required if 51% of UK Gas is sold, GBP Mn**

Net cash payable to PPL	5,086
NGG sales proceeds	(2,591)
Additional debt (Hybrid/Snr debt)	**2,495**
National Grid Gas Transmission RAV	6,328
Premium to RAB (assumption)	30%
Enterprise Value Transmission	8,227
Metering division (2025 EBITDA 10X multiple)	829
Total National Grid Gas EV	**9,055**
Less: Debt (March'20 level)	(3,975)
NGT equity proceeds (100% stake)	5,080
Stake sold	51%
NGG sales proceeds	2,591

Source: Bernstein analysis and estimates

Earnings accretion: National Grid expect the deal to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term. We have now done an analysis of the deal dynamics based on publicly available information on WPD – annual accounts, OFGEM regulatory model etc. For Rhode Island we assume economics in line with 10% of our US division forecasts and for National Grid Gas, we take the forecasts from our Gas Transmission and metering division. We conclude that the deal is **10%-15% accretive in a case where 51% of the UK gas assets are sold** (Exhibit 6) **and 4-5% accretive when 100% of the UK gas**

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assets are sold (due to greater dilution from the sale note being offset by lower funding costs) (Exhibit 7). For more details of the economics of the each moving part please see Exhibit 13.

EXHIBIT 5: **Base-case (Pre-Transaction numbers)**

National Grid published	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
EBITDA	5,094	5,045	5,682	5,956	6,613	6,840	7,085
EBIT	3,454	3,222	3,731	3,875	4,418	4,528	4,672
Net Income	2,015	1,745	2,092	2,179	2,579	2,642	2,738
Diluted EPS (p/share)	58	49	58	60	70	70	72
RAV	41,075	42,069	43,948	46,236	48,895	51,229	53,570
UK	*20,431*	*20,781*	*22,089*	*22,842*	*23,989*	*24,830*	*25,696*
US	*20,644*	*21,288*	*21,860*	*23,394*	*24,907*	*26,399*	*27,874*
% US	**50%**	**51%**	**50%**	**51%**	**51%**	**52%**	**52%**
Electricity	*24,418*	*25,058*	*26,605*	*28,027*	*29,576*	*30,963*	*32,303*
Gas	*16,657*	*17,011*	*17,343*	*18,210*	*19,319*	*20,266*	*21,267*
% Elec	**59%**	**60%**	**61%**	**61%**	**60%**	**60%**	**60%**
FFO	3,590	4,018	4,466	4,798	5,305	5,506	5,727
RCF	2,659	2,700	3,108	3,395	3,857	4,010	4,182
Net Debt (Cr Rating Agencies)	28,893	33,768	35,556	37,428	39,321	40,783	42,061
FFO/Net Debt	12%	12%	13%	13%	13%	14%	14%
RCF/Net Debt	9%	8%	9%	9%	10%	10%	10%

Source: National Grid, Bernstein analysis and estimates

EXHIBIT 6: **Assuming 51% of National Grid Gas UK is sold**

PF nos post transaction	**51%**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
EBITDA		5,696	6,251	6,585	7,171	7,454	7,707
EBIT		3,852	4,303	4,479	4,945	5,103	5,244
Net Income		2,077	2,381	2,490	2,825	2,923	3,013
EPS (p/share)			66	68	77	78	80
RAV		**45,101**	**47,388**	**49,993**	**52,792**	**55,468**	**58,156**
UK		*25,942*	*27,715*	*28,939*	*30,376*	*31,708*	*33,069*
US		*19,159*	*19,674*	*21,055*	*22,416*	*23,760*	*25,087*
% US		**42%**	**42%**	**42%**	**42%**	**43%**	**43%**
Electricity		*32,083*	*34,081*	*35,924*	*37,847*	*39,730*	*41,603*
Gas		13,018	13,307	14,069	14,946	15,738	16,553
% Elec		**71%**	**72%**	**72%**	**72%**	**72%**	**72%**
FFO		4,350	4,755	5,109	5,551	5,788	6,003
RCF		3,032	3,397	3,707	4,102	4,292	4,457
Net Debt (Cr Rating Agencies)		36,263	38,304	40,394	42,438	44,139	45,666
FFO/Net Debt		12%	12%	13%	13%	13%	13%
RCF/Net Debt		8%	9%	9%	10%	10%	10%
EPS Accretion			**14%**	**15%**	**10%**	**11%**	**11%**
RAV Growth (2022-26) Pre-Transaction			**5.1%**				
RAV Growth (2022-26) Post-Transaction			**5.3%**				

Source: Bernstein analysis

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EXHIBIT 7: **Assuming 100% of National Grid Gas UK is sold**

PF nos post transaction	100%	FY21	FY22	FY23	FY24	FY25	FY26
EBITDA		5,333	5,835	6,195	6,731	7,040	7,269
EBIT		3,578	4,007	4,189	4,605	4,788	4,905
Net Income		1,947	2,232	2,346	2,640	2,762	2,835
EPS (p/share)			62	65	72	74	75
RAV		**42,000**	**44,265**	**46,823**	**49,450**	**52,029**	**54,589**
UK		*22,841*	*24,591*	*25,768*	*27,034*	*28,269*	*29,502*
US		*19,159*	*19,674*	*21,055*	*22,416*	*23,760*	*25,087*
% US		**46%**	**44%**	**45%**	**45%**	**46%**	**46%**
Electricity		*32,083*	*34,081*	*35,924*	*37,847*	*39,730*	*41,603*
Gas		9,917	10,184	10,899	11,603	12,299	12,986
% Elec		**76%**	**77%**	**77%**	**77%**	**76%**	**76%**
FFO		4,219	4,606	4,964	5,366	5,627	5,824
RCF		2,901	3,248	3,562	3,918	4,131	4,279
Net Debt (Cr Rating Agencies)		33,774	35,843	37,914	39,810	41,403	42,787
FFO/Net Debt		12%	13%	13%	13%	14%	14%
RCF/Net Debt		9%	9%	9%	10%	10%	10%
EPS Accretion			**7%**	**8%**	**3%**	**5%**	**4%**
RAV Growth (2022-26) Pre-Transaction			**5.1%**				
RAV Growth (2022-26) Post-Transaction			**5.4%**				

Source: WPD, Ofgem, National Grid, Bernstein analysis and estimates

No change to dividend policy and credit rating: No change to recently announced updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current investment grade credit rating (National Grid BBB and BBB+ at UK operating company level). The deal further underpins the confidence in the dividend policy. The recent downgrade of credit rating with required metrics of 7-9% RCF/ Net Debt and 10-13% FFO/Net Debt offers the company head-room. **The CFO confirmed that no new equity is planned to be raised**; deal will be funded with acquisition financing which will be paid done in due course with proceeds of the Gas Transmission and Rhode Island deal. Some residual senior and hybrid debt could be raised, depending on the valuation of the gas transmission assets and % of stake sold. Our analysis above confirms that credit ratios barely change post the asset swap and therefore there is no need for equity funding.

US still a key part of the business at 40% -45% of assets: The deals will maintain National Grids' geographic and regulatory diversity, with c.40% of the Group assets in the US after the sales of Rhode Island and 51% stake in Gas Transmission. The Rhode Island division is around 10% of National Grid's US division. If 100% of the UK Gas assets are sold, the US proportion increases to 45%.

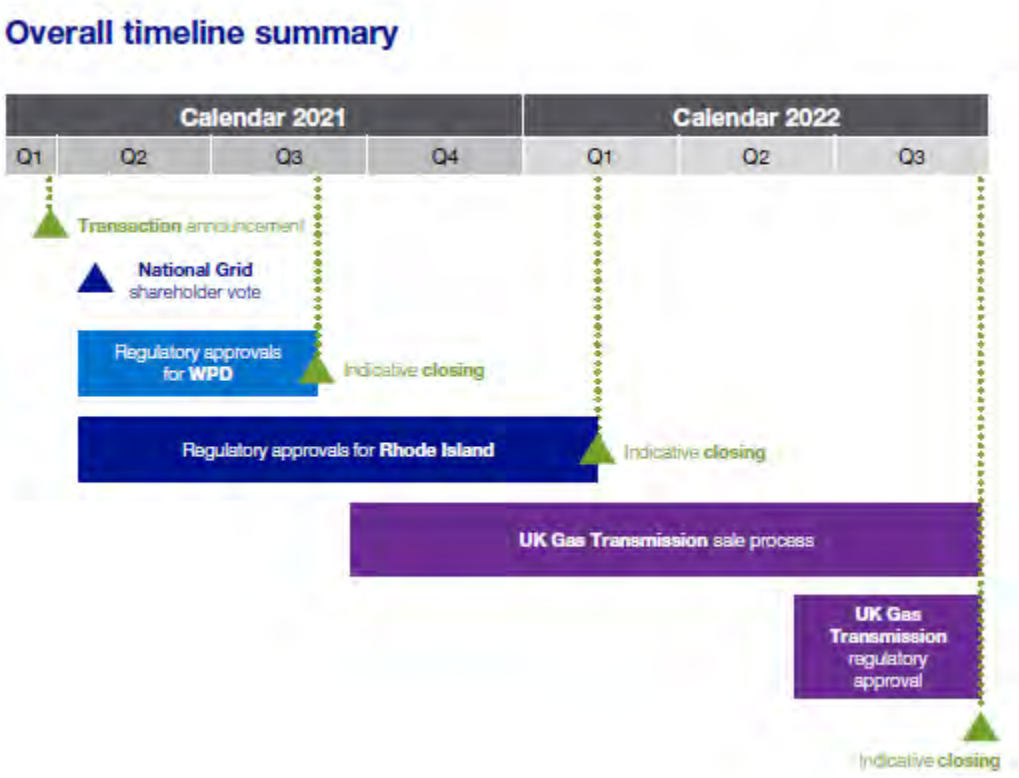
Operational synergies seem limited: The CEO and CFO of WPD will lead the UK distribution business as part of the enlarged Group. National Grid, recognising the importance of WPD to the communities it serves, intends to maintain the WPD headquarters in Bristol and offices in other key locations. This suggests lower operational synergies.

Timing including sale of gas transmission spans over the next 18 months (Exhibit 8) but WPD transaction will close in 4 months.

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EXHIBIT 8: **All transactions close in 18 months**



Source: National Grid

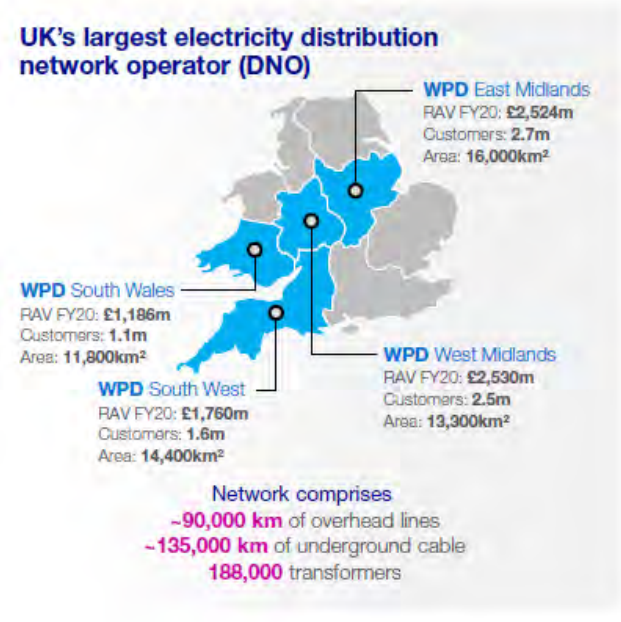
Details of the WPD assets acquired: WPD is UK's largest electricity distribution company (Exhibit 9)with a Regulated Asset Base of GBP 8.4bn today which has been growing at 5% p.a. The asset is well run and has been earning incentive revenues (Exhibit 10 and Exhibit 11) although it has underdelivered on financing (at notional gearing assumptions). The silver lining is that WPD's potential cost of capital allowance in the new regulatory period which starts in April 2024 (Exhibit 12) will marginally improve due to the move from RPI to CPI and a change in the cost of debt methodology. Furthermore, there could be an additional 14bps upside to the WACC, if the CMA decision for the water companies[1] with a Cost of Equity of 4.73% is upheld.

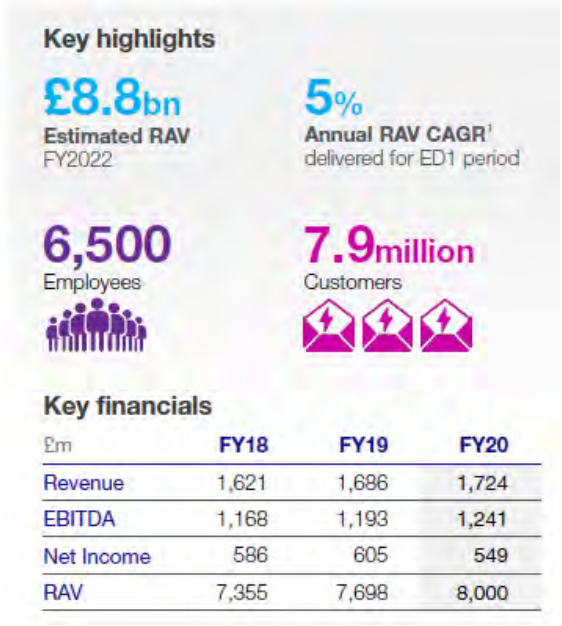
[1] **Comment: CMA water ruling positive for National Grid and SSE with a CoE of 4.73% vs Ofgem's 4.02%**

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EXHIBIT 9: **WPD is UK's largest distribution company with a Regulated Asset Base of GBP 8.4bn today**

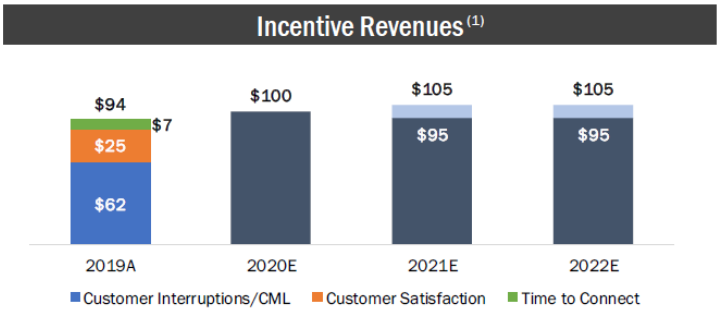


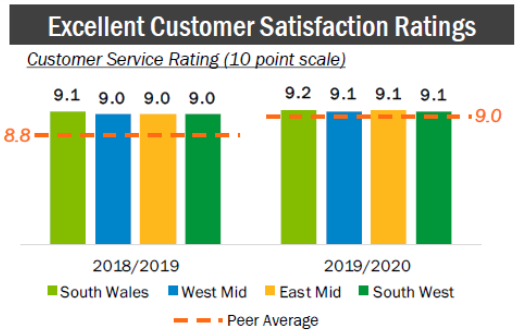


£m	FY18	FY19	FY20
Revenue	1,621	1,686	1,724
EBITDA	1,168	1,193	1,241
Net Income	586	605	549
RAV	7,355	7,698	8,000

Source: National Grid

EXHIBIT 10: **WPD has been earning strong incentive revenues in RIIO ED1**





- WPD has the ability to earn annual incentive revenues for strong operational performance:
  - Customer Interruptions/Minutes Lost – rewards or penalizes DNOs for managing and reducing power outage frequency and duration
  - The Broad Measure of Customer Service – rewards or penalizes DNOs based on supply interruptions, connections and general inquiries, complaints, stakeholder engagement, and delivery of social obligations
  - Time to Connect – incentive rewards DNOs for reducing connection times against Ofgem targets

Source: PPL

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EXHIBIT 11: **WPD has delivered 9.7% Return on Equity before financing and 7.7% after financing vs an allowance of 6.4%**

Table 3: RoRE based on Notional Gearing – RIIO-ED1 period based on 2019/20 RFPR submissions

	ENWL	NPg	SP	SSE	UKPN	WPD
RIIO-ED1 operational RoRE	10.3%	8.2%	6.1%	7.3%	9.8%	9.7%
Financing and tax performance	-2.0%	-0.8%	1.5%	0.1%	-0.3%	-2.0%
Total RoRE	8.4%	7.4%	7.6%	7.4%	9.5%	7.7%

Source: OFGEM

EXHIBIT 12: **RIIO ED2 WACC will be marginally better due to transition to CPIH and change in cost of debt indexation (only relevant to WPD)**

	WPD FY 2022	RIIO ED2 - Ofgem Sector proposals
Cost of Debt	0.76%	2.09%
Cost of equity	6.40%	4.40%
Gearning	65.00%	60%
WACC	**2.73%**	**3.01%**
	RPI	CPI

Source: OFGEM, Bernstein analysis

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EXHIBIT 13: **Workings on P&L of moving parts of the transaction**

WPD P&L	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
Revenue	1,724						
EBITDA	1,241	1,273	1,299	1,352	1,357	1,405	1,456
EBIT	1,037	1,060	1,073	1,113	1,106	1,139	1,173
Interest costs	(288)	(297)	(297)	(297)	(297)	(297)	(297)
PBT	750	762	775	816	808	842	876
Tax	(201)	(145)	(147)	(155)	(154)	(160)	(166)
Net Income	**549**	**617**	**628**	**661**	**655**	**682**	**709**
RAV	8,000	8,388	8,877	9,396	9,866	10,458	11,086
Transaction P/E multiple	14.2x	12.6x					
Transaction EV/EBITDA multiple	11.5x	11.2x					

National Grid Gas (inc metering) P&L	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
EBITDA	710	743	848	795	898	846	895
EBIT	560	559	603	591	694	642	691
Interest costs	(127)	(127)	(127)	(127)	(127)	(127)	(127)
PBT	433	432	476	464	567	515	564
Tax	(82)	(82)	(91)	(88)	(108)	(98)	(107)
Net Income	**351**	**350**	**386**	**376**	**459**	**417**	**457**
RAV	6,298	6,328	6,374	6,470	6,820	7,018	7,279
Transaction P/E multiple		14.5x					
Transaction EV/EBITDA multiple		12.2x					

Rhode Island P&L	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**
EBITDA	249	243	297	317	341	359	377
EBIT	164	145	193	207	225	237	249
Interest costs	(56)	(56)	(56)	(56)	(56)	(56)	(56)
PBT	108	90	137	151	169	181	193
Tax	(38)	(23)	(36)	(39)	(44)	(47)	(50)
Net Income	**70**	**66**	**102**	**112**	**125**	**134**	**143**
RAV	2,064	2,129	2,186	2,339	2,491	2,640	2,787
Transaction P/E multiple			26.7x				
Transaction EV/EBITDA multiple			12.7x				

Source: WPD, Ofgem, National Grid, Bernstein analysis and estimates

Model changes: We update our baseline model to reflect National Grid's higher capex expectations for the UK (including gas transmission) of GBP 2bn p.a., compared to the OFGEM base-line capex of GBP1.5bn p.a and a delay in recovery of COVID dues in the US.

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APPENDIX - FINANCIAL FORECASTS

EXHIBIT 14: **Income Statement**

NATIONAL GRID PLC									
Income Statement (YE 31 March, GBPm)	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Revenues									
UK Transmission	5,245	4,247	4,629	4,230	4,336	4,354	4,971	4,963	5,089
Electricity Transmission UK	*4,154*	*3,351*	*3,702*	*3,254*	*3,255*	*3,247*	*3,685*	*3,748*	*3,808*
Gas Transmission UK	*1,091*	*896*	*927*	*976*	*1,081*	*1,107*	*1,287*	*1,216*	*1,281*
UK Gas Distribution	0	0	0	0	0	0	0	0	0
US regulated	9,272	9,846	9,205	10,243	12,298	13,213	14,390	15,187	15,973
Other	776	876	736	628	636	655	613	691	693
Eliminations	(43)	(36)	(30)	(151)	(173)	(182)	(200)	(208)	(218)
Total Revenues	**15,250**	**14,933**	**14,540**	**14,950**	**17,098**	**18,041**	**19,775**	**20,633**	**21,537**
Headline EBIT before exceptionals									
UK Transmission	1,528	1,318	1,668	1,486	1,528	1,595	1,890	1,810	1,841
Electricity Transmission UK	*1,041*	*1,015*	*1,320*	*1,074*	*994*	*1,082*	*1,244*	*1,217*	*1,200*
Gas Transmission UK	*487*	*303*	*348*	*412*	*535*	*513*	*646*	*593*	*641*
UK Gas Distribution	0	0	0	0	0	0	0	0	0
US regulated	1,698	1,724	1,397	1,554	1,866	2,005	2,184	2,305	2,424
Other	231	400	242	212	225	258	278	347	341
Headline EBIT	**3,457**	**3,442**	**3,307**	**3,252**	**3,620**	**3,858**	**4,352**	**4,462**	**4,606**
Underlying EBIT before exceptionals									
UK Transmission	1,560	1,433	1,576	1,556	1,573	1,545	1,890	1,810	1,841
Electricity Transmission UK	*1,055*	*1,092*	*1,174*	*1,124*	*1,080*	*1,032*	*1,244*	*1,217*	*1,200*
Gas Transmission UK	*505*	*341*	*402*	*432*	*494*	*513*	*646*	*593*	*641*
UK Gas Distribution	0	0	0	0	0	0	0	0	0
US regulated	1,704	1,594	1,636	1,454	1,933	2,072	2,250	2,371	2,491
Other	231	400	242	212	225	258	278	347	341
Underlying EBIT	**3,495**	**3,427**	**3,454**	**3,222**	**3,731**	**3,875**	**4,418**	**4,528**	**4,672**
Exceptionals, remeasurements, adjustments	36	(572)	(527)	0	0	0	0	0	0
Net financial items	(745)	(1,069)	(1,113)	(1,075)	(1,114)	(1,136)	(1,171)	(1,197)	(1,214)
Reported EBT	**2,748**	**1,801**	**1,667**	**2,178**	**2,506**	**2,722**	**3,181**	**3,265**	**3,392**
Add: Profit from JVs and associates	167	40	88	67	67	67	67	67	67
Tax Expense	884	(339)	(480)	(483)	(567)	(619)	(718)	(740)	(771)
Reported PAT	3,592	1,502	1,275	1,762	2,007	2,170	2,530	2,592	2,689
Headline PAT	2,061	2,001	1,913	1,762	2,007	2,170	2,530	2,592	2,689
Headline EPS Basic (p per share)	59.5	59.0	55.3	49.8	55.9	59.7	68.7	69.4	71.0
Underlying EPS Basic (p per share)	**60.4**	**59.0**	**58.2**	**49.30**	**58.3**	**59.9**	**70.0**	**70.7**	**72.3**
DPS (p per share)	45.9	47.3	48.6	49.33	50.3	51.3	52.4	53.4	54.5
Dividend pay-out ratio (Underlying)	76%	80%	83%	100%	86%	86%	75%	76%	75%
Avg. Basic Shares Outstanding	3,461	3,386	3,461	3,540	3,587	3,636	3,685	3,736	3,786
Underlying EBITDA	**5,025**	**5,027**	**5,094**	**5,045**	**5,682**	**5,956**	**6,613**	**6,840**	**7,085**

Source: Company reports, Bernstein analysis and estimates

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EXHIBIT 15: **Balance Sheet**

Balance Sheet (YE 31 March, GBPm)	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
ASSETS									
Non Current Assets	52,106	55,017	61,288	64,359	67,509	70,489	73,812	76,769	79,611
Currents Assets	6,681	5,990	5,801	6,088	6,137	6,356	6,759	6,959	7,169
t/o cash	329	252	73	73	73	73	73	73	73
LIABILITIES AND SHAREHOLDER'S EQUITY									
Non Current Liabilities	31,242	34,465	38,941	42,061	43,906	45,862	47,870	49,526	51,046
Current Liabilities	8,697	9,129	8,564	8,318	8,984	9,420	10,017	10,382	10,732
Total Shareholder Equity	18,848	19,369	19,584	20,068	20,755	21,563	22,683	23,819	25,001
Book Value of Equity	18,848	19,369	19,584	20,068	20,755	21,563	22,683	23,819	25,001
UK RCV (£)	22,726	19,692	20,431	20,781	22,089	22,842	23,989	24,830	25,696
US Rate base (£)	14,762	17,565	20,644	21,288	21,860	23,394	24,907	26,399	27,874
Gross Financial Debt	**26,625**	**28,730**	**30,794**	**34,139**	**35,927**	**37,799**	**39,692**	**41,154**	**42,431**
Cash & equivalents	(329)	(252)	(73)	(73)	(73)	(73)	(73)	(73)	(73)
Financial Investments	(3,593)	(2,648)	(1,998)	(2,541)	(2,541)	(2,541)	(2,541)	(2,541)	(2,541)
Net Financial Debt (pre-derivatives)	**22,703**	**25,830**	**28,723**	**31,525**	**33,313**	**35,185**	**37,078**	**38,540**	**39,817**
Net Financial Debt (post-derivatives)	**22,040**	**25,860**	**28,590**	**31,517**	**33,305**	**35,177**	**37,070**	**38,532**	**39,809**
Pensions Liabilities (Net of Tax)	(60)	48	593	877	877	877	877	877	877
Other adjustments to debt	899	667	543	625	625	625	625	625	625
Net Economic Debt	**22,879**	**26,575**	**29,726**	**31,488**	**33,276**	**35,148**	**37,041**	**38,503**	**39,781**
Net Financial Debt/EBITDA	4.4x	5.1x	5.6x	6.25x	5.9x	5.9x	5.6x	5.6x	5.6x
Net Economic Debt/EBITDA	4.6x	5.3x	5.8x	6.2x	5.9x	5.9x	5.6x	5.6x	5.6x
FFO/Net Debt	16.2%	14.4%	12.6%	12.7%	13.4%	13.6%	14.3%	14.3%	14.4%
RCF/Net Debt	10.0%	9.7%	9.3%	8.6%	9.3%	9.7%	10.4%	10.4%	10.5%
Post-Tax ROCE (Excl. Goodwill)	7.1%	6.6%	5.6%	5.1%	5.3%	5.4%	5.7%	5.6%	5.5%
ROE	11%	10%	10%	9%	10%	10%	11%	11%	11%

Source: Company reports, Bernstein analysis and estimates

EXHIBIT 16: **Cash Flow Statement**

Cash Flow (YE 31 March, GBPm)	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Cashflow from Operations	4,503	4,318	4,618	3,835	5,678	5,621	6,138	6,393	6,629
Cashflow from Investing Activities	2,237	(3,446)	(3,195)	(4,826)	(5,033)	(4,994)	(5,450)	(5,201)	(5,187)
Cashflow from Financing Activities	(7,547)	(952)	(1,606)	991	(645)	(627)	(688)	(1,192)	(1,442)
Impact of FX	(3)	3	4	0	0	0	0	0	0
Change in Cash (Post-FX)	**(810)**	**(77)**	**(179)**	**(0)**	**(0)**	**0**	**(0)**	**0**	**(0)**
FFO	3,573	3,727	3,590	4,018	4,466	4,798	5,305	5,506	5,727
RCF	2,206	2,516	2,659	2,700	3,108	3,395	3,857	4,010	4,182
Capex (Gross)	3,911	3,941	4,900	4,894	5,100	5,061	5,517	5,268	5,254
FCFF	94	(11)	(1,196)	(539)	(349)	1	47	494	717
FCFE	(875)	307	(1,040)	1,356	156	557	585	633	680
Dividends	(1,367)	(1,211)	(931)	(1,318)	(1,358)	(1,402)	(1,448)	(1,496)	(1,546)
(Acquistions)/Divestures - net	(3,921)	(3,903)	(2,867)	(4,894)	(5,100)	(5,061)	(5,517)	(5,268)	(5,254)
Net movement in borrowing	(987)	1,107	233	3,345	1,788	1,872	1,893	1,462	1,278

Source: Company reports, Bernstein analysis and estimates

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VALUATION METHODOLOGY

We value National Grid using a SOTP DCF.

RISKS

National Grid PLC

Key downside risks to our price targets include:

+ Execution issues around delivering capex programme and efficiencies
+ Less benign debt capital markets
+ Failure to improve US returns
+ Adverse political / regulatory interference

European Utilities & Renewables

There are certain risks that are common to all companies in our coverage:

+ Regulation: All companies in our coverage are at risk of regulatory impacts. A country's general attitude and policy toward the energy & utilities industry (e.g., Renewables, regulated return for networks, energy taxes, etc.) will have significant influence toward the future earnings stream of companies operating in this space.
+ Adverse credit conditions limiting access to credit
+ Prevailing macro-economic conditions: In each of the territories our coverage companies operate in, the demand for electricity and gas is correlated to the prevailing economic conditions. Thus, any unexpected deterioration or improvement in the macroeconomic conditions in these countries will impact the growth assumptions applied to those operations. Changes in commodity prices – Power, Gas, Coal, Carbon will also impact the profitability of our coverage with merchant power generation/ upstream/ midstream activities

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12-Month Bernstein Rating History as of 03/17/2021

Ticker	Rating Changes
NG/.LN	O (RC) 06/14/19

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated

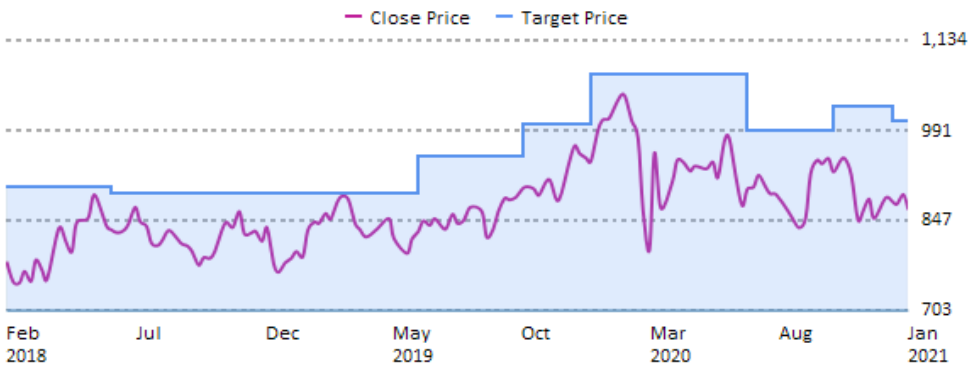
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Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

NG/.LN / National Grid PLC (GBp)

Date	Rating	Target
09-Jan-2018	M	960.00
05-Feb-2018	M	900.00
06-Jun-2018	M	890.00
14-Jun-2019	O	950.00
21-Oct-2019	O	1,000.00
09-Jan-2020	O	1,080.00
20-Jul-2020	O	990.00
27-Oct-2020	O	1,030.00
06-Jan-2021	O	1,005.00

O - Outperform
M - Market-Perform
U - Underperform
N - Not Rated



Source: Bernstein - As of 04-Feb-2021

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National Grid USA and The Narragansett Electric Company
Division 1-12

Request:

Please identify and provide copies of all filings with the U.S. Securities and Exchange Commission made by Applicants related to the transaction.

Response:

Please see Attachment NG-DIV 1-12-1 through Attachment NG-DIV 1-12-4 for all filings with the U.S. Securities and Exchange Commission made by National Grid plc on behalf of National Grid USA related to PPL Rhode Island Holdings, LLC's acquisition of The Narragansett Electric Company from National Grid USA.

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

Date: 31 March 2021

Commission File Number: 001-14958

NATIONAL GRID plc

(Registrant's Name)

1-3 Strand
London WC2N 5EH, England
(Registrant's Address)

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☒ Form 20-F ☐ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3- 2(b) under the Securities Exchange Act of 1934. ☐ Yes ☒ No

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Please see Exhibit 99.1 Announcement sent to the London Stock Exchange on 31 March 2021 — ' National Grid plc - Proposed acquisition of Western Power Distribution - Publication of Circular and Notice of General Meeting'

Exhibit 99.1

National Grid plc
31 March 2021

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NATIONAL GRID PLC WILL SHORTLY PUBLISH A CIRCULAR IN CONNECTION WITH THE WPD ACQUISITION. ANY VOTING DECISIONS BY SHAREHOLDERS IN CONNECTION WITH THE WPD ACQUISITION SHOULD BE MADE ON THE BASIS OF THE INFORMATION CONTAINED IN THE CIRCULAR.

FOR IMMEDIATE RELEASE

National Grid plc ('National Grid' or the 'Company')

Proposed acquisition of Western Power Distribution

Publication of Circular and Notice of General Meeting

Further to the announcement made on 18 March 2021, National Grid announces that its circular (the '**Circular**'), in relation to the proposed acquisition of PPL WPD Investments Limited, the holding company of Western Power Distribution - the UK's largest electricity distribution business (the '**WPD Acquisition**'), has today been approved by the Financial Conduct Authority (the '**FCA**').

The Circular will shortly be sent to the Company's shareholders ('**shareholders**'), other than those who have elected for notification by electronic communication.

The WPD Acquisition is conditional on, among other things, the approval of shareholders. Accordingly, the Circular contains a notice convening a General Meeting of the Company which is to be held at 1 - 3 Strand, London, WC2N 5EH at 12pm on 22 April 2021 (the '**General Meeting**') at which ordinary resolutions will be proposed for shareholders to approve the WPD Acquisition and a related increase to the borrowing limit in the Company's articles of association (the '**Notice of General Meeting**'). Further details of the resolutions are provided in the explanatory notes to the Notice of General Meeting.

The expected timetable of principal events in relation to the General Meeting is as follows:

Event	**Expected time/date**
Deadline for lodging Forms of Proxy/ CREST Proxy Instructions	12 p.m. on 20 April 2021
Voting Record Time	6.30 p.m. on 20 April 2021
General Meeting	12 p.m. on 22 April 2021

General Meeting

The health and safety of our shareholders and colleagues is vitally important to us; therefore in light of the COVID-19 pandemic and current UK Government restrictions which prohibit, among other things, public gatherings, the General Meeting will take place as a closed meeting. This means that the General Meeting will be held with only the minimum number of persons in attendance as is legally required to form a quorate meeting.

Please do not travel to the General Meeting, as anyone who seeks to attend in person will be refused entry.

All shareholders are strongly urged to register their votes in advance by appointing the Chairman of the General Meeting as their proxy and giving voting instructions. We do not recommend the appointment of any other person as your proxy as they will not be able to attend the General Meeting and your vote will not be

counted. Further details on how to appoint your proxy are provided in the explanatory notes to the Notice of General Meeting.

Shareholder engagement

The Board of directors (the '**Board**') recognises the ongoing importance of communication with shareholders at this time and allowing shareholders the opportunity to engage with the Board. Shareholders will have the opportunity to submit questions in advance of the proxy voting deadline at 12pm on 20 April 2021. Information about how to submit your questions is set out in the Notice of General Meeting.

A pre-recorded webcast will be available to watch online prior to the General Meeting at https://www.nationalgrid.com/investors/shareholder-information/agm from 14 April 2021 at which shareholder questions submitted before 5pm on 12 April 2021 will be answered by the Board. Please note that the webcast is intended for shareholders only. If you are a shareholder and would like to ask the Board questions on the formal business of the General Meeting, please submit your questions by completing the form at https://www.nationalgrid.com/investors/shareholder-information/agm. You will be able to register questions from 1 April 2021 until 12pm on 20 April 2021. You will be asked to supply your Shareholder Reference Number for verification. We will endeavour, where appropriate, to answer questions from shareholders submitted before 5pm on 12 April 2021 during the webcast and in any event will make answers available to those and other questions submitted before 12pm on 20 April 2021 at https://www.nationalgrid.com/investors/shareholder-information/agm as soon as practical after the webcast.

The Circular and the Notice of General Meeting will shortly be submitted to the National Storage Mechanism of the FCA and available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism

The Circular and the Notice of General Meeting will also shortly be available for viewing on the Company's website at

https://www.nationalgrid.com/investors/shareholder-information/agm

The Board will continue to closely monitor the latest Government guidance in respect of the COVID-19 pandemic and how this may affect the arrangements for the General Meeting. If it becomes necessary or appropriate to revise the current arrangements for the General Meeting, further information will be made available on our website at https://www.nationalgrid.com/investors/shareholder-information/agm

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL GRID plc

By: ***/s/Ceri James***

Ceri James
Assistant Company Secretary

Date:31 March 2021

EXHIBIT INDEX

Exhibit No.	Description
99.1	Exhibit 99.1 Announcement sent to the London Stock Exchange on 31 March 2021 — ' National Grid plc - Proposed acquisition of Western Power Distribution - Publication of Circular and Notice of General Meeting'

6-K 1 a6ksd18mar21ma-wpdneco.htm 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

Date: 18 March 2021

Commission File Number: 001-14958

NATIONAL GRID plc

(Registrant's Name)

1-3 Strand
London WC2N 5EH, England
(Registrant's Address)

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☒ Form 20-F ☐ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3- 2(b) under the Securities Exchange Act of 1934. ☐ Yes ☒ No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

Please see Exhibit 99.1 Announcement sent to the London Stock Exchange on 18 March 2021 — 'Proposed acquisition of Western Power Distribution and strategic portfolio repositioning '

EX-99.1 2 a6ksd18mar21ex991wpdannoun.htm EX-99.1

EXHIBIT 99.1

National Grid PLC
18 March 2021

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

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FOR IMMEDIATE RELEASE

National Grid plc

Proposed acquisition of Western Power Distribution and strategic portfolio repositioning

National Grid plc ("**National Grid**" and together with its subsidiary undertakings, the "**Group**") today announces that it has agreed to acquire PPL WPD Investments Limited (together with its subsidiary undertakings, the ("**WPD Group**")), the holding company of Western Power Distribution ("**WPD**"), the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation ("**PPL**") (the "**WPD Acquisition**") for an equity value of £7.8 billion and National Grid has agreed to sell The Narragansett Electric Company ("**NECO**") to PPL Energy Holdings, LLC, also a subsidiary of PPL, for an equity value of US$3.8 billion (£2.7 billion) (the "**NECO Sale**", and together with the WPD Acquisition, the "**Transactions**").

In addition, National Grid announces that it will commence a process later this year for the sale of a majority stake in National Grid Gas plc, the owner of the national gas transmission system ("**NGG**") (the "**NGG Sale**").

Together these transactions will:

- strategically pivot National Grid's UK portfolio towards electricity. The proportion of the Group's assets in electricity will increase from c.60% to c.70%;
- strengthen National Grid's long-term growth outlook by ensuring a significant scale position in electricity distribution through the acquisition of WPD, the UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition;
- significantly enhance National Grid's central role in the delivery of the UK's net zero targets, given the complementary nature of transmission and distribution, providing benefits for customers;
- deliver shareholder value as the transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term;
- underpin National Grid's 5 to 7% asset growth target for longer, further supporting National Grid's updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current overall strong investment grade credit rating;
- maintain the Group's geographic and regulatory diversity, with c.40% of the Group assets in the US after the sales of NECO and stake in NGG;
- generate attractive shareholder value through the sales of NECO and a majority stake in NGG; and
- ensure management continuity and focus: the CEO and CFO of WPD will lead the UK distribution business as part of the enlarged Group. National Grid, recognising the importance of WPD to the communities it serves, intends to maintain the WPD headquarters in Bristol and offices in other key locations.

Completion of the WPD Acquisition, which will be funded by fully committed bridge facilities, is expected to occur within the next four months and completion of the NECO Sale is expected to occur before the end of the first quarter of 2022. National Grid expects to launch the sale process for NGG in the second half of this year and complete the sale approximately a year later.

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John Pettigrew, Chief Executive of National Grid, said:

"These transactions will be transformational for our UK portfolio. The acquisition of WPD is a one-off opportunity to acquire a significant scale position in UK electricity distribution. WPD has a high quality, fast growing asset base and an excellent track record of customer satisfaction, operational performance and financial returns. We have received a premium valuation for our Rhode Island business and I am confident that we will also deliver attractive shareholder value from the NGG Sale in due course.

In combination with the continued successful execution of our strategy in the US, establishing National Grid as the leading electricity transmission and distribution operator in the UK will strengthen our long-term growth prospects, enhance our role in the UK's energy transition and drive long term shareholder value. Following the completion of these transactions, we will continue to have a diversified portfolio of assets across the UK and US, with a strong asset growth profile that will further underpin our dividend policy for the longer term.

I'd like to take this opportunity to say a heartfelt thank you from all of us at National Grid to all the fantastic Rhode Island colleagues who have worked so hard over the years to deliver the energy needs for our customers across Rhode Island. I know that PPL will be an excellent steward for both NECO's customers and colleagues.

As we move our portfolio to higher growth assets, we have taken the decision to sell a majority stake in NGG. Given the strategic nature of its business coupled with its central position in a transition towards a hydrogen economy, it will continue to play a vital role in the UK's energy system. We expect strong interest when the sale process begins, likely to be in the second half of this year.

The acquisition of WPD brings great people and outstanding experience to National Grid and I am hugely excited about building the future together. Our vision for National Grid remains unchanged, to be at the heart of a clean, fair and affordable energy future. With increased exposure to the UK's electricity sector, these transactions enhance our role in the progress towards net zero, underpinning our core ambition which is to enable the energy transition for all. We look forward to constructive engagement with Ofgem and policymakers, on how best to achieve these common goals in the best interests of all our customers and wider stakeholders."

The WPD Acquisition is a Class 1 transaction under the Listing Rules and is therefore conditional upon the approval of shareholders at a General Meeting. Accordingly, National Grid will shortly publish a shareholder circular containing further details of the WPD Acquisition, a recommendation from its board of directors (the "**Board**"), and the notice of the General Meeting which is expected to be held by the end of April 2021. In addition, the Transactions are conditional on certain regulatory approvals and the NECO Sale is conditional on completion of the WPD Acquisition occurring.

The person responsible for arranging the release of this announcement on behalf of National Grid is Justine Campbell, Group General Counsel & Company Secretary.

Analyst call with Q&A:

The Group will host an analyst call today at 08.15 GMT. To view the slides and listen to the audio please visit https://streamstudio.world-television.com/786-1014-27867/en (pre-registration required).

If you would like to ask a question please also join the conference call using the following phone numbers:

Participant access code:	946437
United Kingdom (Local)	020 3936 2999
United Kingdom (Toll Free)	0800 640 6441
United States (Local)	1 646 664 1960
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National Grid plc

Proposed acquisition of Western Power Distribution and strategic portfolio repositioning

1. Introduction

National Grid plc ("**National Grid**" and together with its subsidiary undertakings, the "**Group**") today announces that it has agreed to acquire PPL WPD Investments Limited (together with its subsidiary undertakings, the ("**WPD Group**")), the holding company of Western Power Distribution ("**WPD**"), the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation ("**PPL**") (the "**WPD Acquisition**") for an equity value of £7.8 billion and National Grid has agreed to sell The Narragansett Electric Company ("**NECO**") to PPL Energy Holdings, LLC, also a subsidiary of PPL, for an equity value of US$3.8 billion (£2.7 billion) (the "**NECO Sale**", and together with the WPD Acquisition, the "**Transactions**").

In addition, National Grid announces that it will commence a process later this year for the sale of a majority stake in National Grid Gas plc, the owner of the national gas transmission system ("**NGG**") (the "**NGG Sale**").

Together these transactions will:

- strategically pivot National Grid's UK portfolio towards electricity. The proportion of the Group's assets in electricity will increase from c.60% to c.70%;
- strengthen National Grid's long-term growth outlook by ensuring a significant scale position in electricity distribution through the acquisition of WPD, the UK's largest electricity distribution business. Electricity distribution is expected to see a high level of asset growth as a result of the ongoing energy transition;
- significantly enhance National Grid's central role in the delivery of the UK's net zero targets, given the complementary nature of transmission and distribution, providing benefits for customers;
- deliver shareholder value as the transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term;
- underpin National Grid's 5 to 7% asset growth target for longer, further supporting National Grid's updated dividend policy to deliver annual dividend per share growth in line with UK CPIH inflation, while expecting to maintain its current overall strong investment grade credit rating;
- maintain the Group's geographic and regulatory diversity, with c.40% of the Group assets in the US after the sales of NECO and stake in NGG;
- generate attractive shareholder value through the sales of NECO and a majority stake in NGG; and
- ensure management continuity and focus: the CEO and CFO of WPD will lead the UK distribution business as part of the enlarged Group. National Grid, recognising the importance of WPD to the communities it serves, intends to maintain the WPD headquarters in Bristol and offices in other key locations.

2. Information on WPD and NECO

WPD

WPD is the UK's largest electricity distribution business with its four distribution network operators ("**DNOs**") delivering electricity to approximately 7.9 million customers and employing over 6,500 staff. WPD's network comprises approximately 90,000 kilometres of overhead lines, 135,000 kilometres of underground cable and 188,000 transformers.

At 31 March 2022, the total regulated asset value ("**RAV**") of WPD is projected to be approximately £8.8 billion having grown by approximately 5% per annum through the first regulatory price control process known as RIIO-ED1.

Net debt of the WPD Group at 28 February 2021 was £6,413 million.

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NECO

NECO is the largest electricity transmission and distribution service provider to, as well as a natural gas distribution company in, Rhode Island, USA, with over 700 employees and serving approximately 780,000 customers.

At 31 March 2020, the rate base of NECO was approximately US$2.6 billion, comprising approximately US$1.8 billion distribution and US$0.8 billion transmission.

Net debt of NECO at 31 December 2020 was US$1,396 million.

3. Reasons for the Transactions

The board of directors (the "**Board**") considers the WPD Acquisition and NECO Sale to be a compelling opportunity for the following key reasons:

- ***The WPD Acquisition allows National Grid to bring together two complementary businesses***

  The WPD Acquisition allows National Grid to bring together two complementary businesses which have a shared vision of being at the heart of driving the delivery of clean, fair and affordable energy for the future.

- ***WPD represents a one-off opportunity to establish a significant scale position in UK electricity distribution, enhancing National Grid's key role in the delivery of net zero carbon emissions***

  The acquisition of WPD represents a compelling one-off opportunity for National Grid to reposition its UK portfolio towards a critical element of delivering decarbonisation to the UK.

- ***WPD and electricity distribution will add significant growth potential to National Grid***

  Evolution in energy use by end consumers is likely to result in increased demand for electricity which will in turn require significant investment in electricity networks. Adding WPD to the Group's portfolio will secure access to this potential pool of growth in electricity distribution, with its high quality assets well positioned to take advantage of these sectoral trends.

- ***WPD has a track record of excellent performance***

  WPD has a high quality asset base and was the only DNO group to be 'fast-tracked' by Ofgem in the last regulatory price control process known as RIIO-ED1. In addition, WPD is consistently a top-performing DNO group for overall customer satisfaction.

- ***WPD has a highly experienced management team and excellent stakeholder engagement***

  WPD has a highly experienced management team supported by over 6,500 employees. WPD has also demonstrated excellent stakeholder engagement, with the business rated first in the industry by Ofgem for eight consecutive years, for its approach to social obligations and stakeholder engagement.

- ***The NECO Sale is a key differentiator for the WPD Acquisition, with National Grid retaining flexibility to pursue its targeted growth agenda***

  The NECO Sale is a key differentiator for the WPD Acquisition. National Grid will retain flexibility to fund additional growth opportunities at competitive rates, which underpins its asset and dividend growth, whilst enabling the Group to maintain an efficient capital structure.

4. Sale of majority stake in NGG

NGG owns, manages and operates the national gas transmission network in Great Britain. At 31 March 2020, NGG had approximately 7,630 kilometres of pipeline and a workforce of nearly 2,200 employees.

At 31 March 2020, the RAV of NGG was approximately £6.3 billion.

As well as the national gas transmission network, NGG owns National Grid Metering, which generated an operating profit of £158 million in the year to March 2020.

National Grid expects to launch a sale process for a majority stake in NGG in the second half of 2021 and complete the sale in the second half of 2022. The Board anticipates significant buyer interest given NGG's high-quality operations, proven delivery, the strategic nature of the business, its regulatory certainty following the RIIO-T2 determination and the key role that the network will have to play in the energy transition.

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The Board believes the proposed sale to be the right decision for shareholders as whilst NGG is a strongly cash generative, profitable and mature business, the sale will enable National Grid to focus on higher growth assets, whilst maintaining a strong balance sheet.

5. Financing of the WPD Acquisition and use of proceeds of the NECO Sale

The WPD Acquisition will initially be funded by bridge financing facilities (the "**Acquisition Facilities**") in the amount of £8.25 billion to finance the acquisition of WPD and refinancing of certain WPD debt. This will then be repaid over time, from the proceeds from the NECO Sale and the NGG Sale and the issue of new senior debt and hybrid capital securities, as appropriate.

6. Key terms of the Transactions

WPD Acquisition

National Grid Holdings One plc ("**National Grid Holdings**"), National Grid Plc and PPL WPD Limited ("**PPL WPD**") have entered into a sale and purchase agreement (the "**WPD SPA**") pursuant to which PPL WPD has agreed to sell, and National Grid Holdings has agreed to acquire, the entire issued share capital of PPL WPD Investments Limited.

Completion of the WPD Acquisition is conditional upon (a) approval by National Grid's shareholders of the resolutions at the General Meeting, and (b) certain regulatory approvals being received by the date that is three months from signing, or such later date as the parties approve (the "**Long Stop Date**"), subject to two two-month automatic extensions under certain circumstances. Completion is not conditional on approval from the Competition and Markets Authority although National Grid will be making a voluntary filing.

The consideration for the WPD Acquisition is £7.8 billion in cash to be settled at completion. The consideration is subject to a locked box mechanism and accordingly there is a daily ticking fee payable by National Grid Holdings of £548,000 per day from 1 January 2021 until completion, reflecting the dividends that would otherwise be payable by WPD during such period; PPL WPD will also receive a dividend of £140 million from PPL WPD Investments Limited, relating to dividends in respect of 2020 not already paid.

National Grid Holdings has agreed to pay a termination fee of US$150 million to PPL WPD if the WPD Acquisition does not complete in circumstances where the Board changes its recommendation (an "**Adverse Recommendation Change**") in respect of the resolutions. National Grid Holdings has agreed to reimburse the expenses of PPL WPD up to a maximum of US$50 million in the event that the resolutions are not passed at the General Meeting where an Adverse Recommendation Change has not occurred.

The WPD SPA may be terminated if an Adverse Recommendation Change has occurred or the conditions are not satisfied by the Long Stop Date.

National Grid Holdings has obtained warranty and indemnity insurance which, following Completion, will be the sole recourse for any claim in respect of the warranties given by PPL WPD in the WPD SPA, subject to limited exceptions.

NECO Sale

National Grid USA, PPL Energy Holdings, LLC ("**PPL Energy**") and PPL Corporation have entered into a share purchase agreement in respect of the NECO Sale (the "**NECO SPA**") pursuant to which National Grid USA has agreed to sell, and PPL Energy has agreed to acquire, 100% of the outstanding shares of common stock of The Narragansett Electric Company.

The consideration payable by PPL Energy for the NECO Sale is US$3.8 billion (£2.7 billion) in cash, subject to a customary U.S. style completion accounts adjustment. In addition, National Grid USA will receive dividends, of approximately US$52 million for FY21 and an equivalent amount for FY22 on a pro rata basis up to the date of completion.

National Grid USA, PPL Energy and PPL each have made certain customary representations, warranties and covenants in the NECO SPA, which are subject to post-completion indemnification customary for U.S. style transactions.

Completion of the NECO Sale is conditional upon completion of the WPD Acquisition having occurred and receipt of certain antitrust and regulatory approvals in the U.S. and other customary conditions to completion. The NECO Sale is expected to complete before the end of the first quarter of 2022.

The NECO SPA may be terminated by either party if, among other things, the conditions to completion have not been satisfied or waived by the date that is twelve months from signing, subject to two three-

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month automatic extensions under certain circumstances or if the WPD SPA is terminated. There are no termination fees payable by any of the parties under the NECO SPA.

National Grid USA and PPL Energy will enter into a transitional services agreement in order to ensure a smooth continuation of the services provided by the Group to NECO for an interim period following completion.

7. Intentions for the WPD Group

National Grid admires and greatly values the skills, knowledge and expertise of WPD's existing management and employees and therefore its current intention is to preserve the current WPD organisation, including the existing management team and culture, to ensure continuity of its strong track record. National Grid expects existing WPD personnel to continue to contribute to WPD's success and is therefore committed to attracting and retaining WPD talent. National Grid intends to maintain the WPD headquarters in Bristol and offices in other key locations, within the Group, and for WPD to be an important pillar of National Grid's UK business going forward.

8. Financial effects of the Transactions and dividend policy

The Transactions are expected to be significantly earnings accretive from year one, generate a return in excess of National Grid's cost of capital and, taken together with the proposed NGG Sale, continue to be earnings accretive in the longer term.

Following the WPD Acquisition, National Grid's overall portfolio mix is expected to continue to deliver strong asset growth as well as superior long term regulated asset base growth, which alongside attractive returns are expected to continue to deliver a strong cash generation profile and further underpin our sustained progressive dividend policy.

On 2 March 2021, the Board announced that it had reviewed the Group's dividend policy in light of the RIIO-2 Final Determination and that from FY2021/22 onwards, the Group's dividend policy will aim to deliver annual dividend per share growth in line with UK CPIH inflation. The Board confirms that this policy is unaffected by the proposed transactions which further support this dividend policy.

National Grid remains committed to retaining an efficient balance sheet and a strong overall investment grade credit rating going forward

9. Expected timetable to Completion

The WPD Acquisition is a Class 1 transaction under the Listing Rules and is therefore conditional upon the approval of shareholders at a General Meeting. National Grid will shortly publish a shareholder circular containing further details of the WPD Acquisition, the Board's recommendation, and the notice of the General Meeting which is expected to be held in late April 2021. Completion of the WPD Acquisition is expected to occur within the next four months and completion of the NECO Sale is expected to occur before the end of the first quarter of 2022.

FURTHER INFORMATION ON WPD, NECO AND NGG

Information on WPD

The WPD Group had gross assets of £16.0 billion at 31 March 2020 and reported a profit before tax of £750 million for the financial year to 31 March 2020.

The operations of each of the four DNOs owned by WPD are regulated under a distribution licence which, in conjunction with the agreed RIIO-ED1 regulatory framework, sets the requirements that WPD needs to deliver for its customers and the associated revenues it is allowed to earn for the eight-year period from 1 April 2015 to 31 March 2023. In addition to the base level of revenue which the DNOs are allowed to earn, there are incentives to innovate, and incentives relating to customer satisfaction, complaints handling, stakeholder engagement, connections and supply interruptions. The achievement or not of these targets can result in revenue rewards or penalties relating to these activities.

In addition to the DNOs, the WPD Group also consists of other smaller subsidiaries including WPD Smart Metering Limited, WPD Telecoms Limited and South Western Helicopters Limited. The primary purpose of these businesses is to support the DNOs and network related activities of the WPD Group, and they also provide certain services to third parties. The WPD Group also owns property companies to facilitate the management of non-network and investment properties of the WPD Group. These smaller subsidiaries,

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other than the property companies, generated an EBITDA of £11 million in the year to 31 March 2020. The property companies own properties with an asset value of £94 million at 31 March 2020.

Information on NECO

NECO had gross assets of US$5.2 billion at 31 March 2020 and reported an operating profit of US$206 million and net profit of US$122 million for the financial year to 31 March 2020 under U.S. GAAP.

Its electricity and gas distribution businesses are regulated by Rhode Island Public Utilities Commission and its electricity transmission business is regulated by the Federal Energy Regulatory Commission ("**FERC**"). NECO's service area covers substantially all of Rhode Island, equivalent to approximately 1,045 square miles and with a population in excess of one million. NECO's energy delivery business consists of electricity distribution facilities and a natural gas distribution system that provides utility energy delivery services to residential, commercial and industrial customers within its service area. NECO also owns transmission facilities that are operated by an affiliate, the New England Power Company, which is the designated FERC transmission operator in its service area.

Information on NGG

NGG had gross assets of £10.6 billion at 31 March 2020 and reported a profit before tax of £356 million for the financial year to 31 March 2020.

IMPORTANT NOTICES

Persons into whose possession this announcement comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this announcement and the transactions referred to herein. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction. The contents of this announcement should not be construed as legal, business or tax advice.

Notice to all shareholders

Any reproduction or distribution of this announcement, in whole or in part, and any disclosure of its contents or use of any information contained in this announcement for any purpose is prohibited.
The contents of this announcement should not be construed as legal, business or tax advice. Each shareholder should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice, respectively.

Notice to overseas shareholders

The release, publication or distribution of this announcement in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the transactions disclaim any responsibility or liability for the violation of such requirements by any person.

Non-IFRS financial measures

The following non-IFRS financial measures are referred to in this announcement:

- **Asset growth:** 'Asset growth' is the annual percentage increase in our RAV (UK) and rate base (US) and other business balances (including the assets of National Grid Ventures and National Grid Partners) calculated at constant currency.
- **Regulatory asset base:** A regulatory construct based on predetermined principles not based on IFRS. Regulatory asset base effectively represents the invested capital on which National Grid is authorised to earn a cash return. By investing efficiently in its networks, National Grid adds to its regulated asset base over the long term, and this in turn contributes to delivering shareholder value. National Grid's regulated asset base is comprised of the Group's RAV in the UK, plus its rate base in the US.

Exchange rate

Throughout this announcement, unless otherwise stated, the USD to GBP exchange rate used is $1.39 to £1.00.

No profit forecast or estimates

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings or earnings per share ("**EPS**") for National Grid, WPD and the Group (both before and after completion of the transactions), as applicable, for the current or future financial years, would necessarily match or exceed the historical published earnings or EPS for National Grid or WPD, as applicable.

Websites

Neither the content of National Grid's website nor any website accessible by hyperlinks on National Grid's website is incorporated in, or forms part of, this announcement.

Lead transaction advisers

Barclays, Goldman Sachs and Robey Warshaw are acting as joint financial advisers, and Herbert Smith Freehills LLP and Cravath, Swaine & Moore LLP are acting as lead legal advisers to National Grid in respect of English and New York law respectively, in connection with the Transactions. Barclays are also providing corporate broking advice in connection with the Transactions and acting as sole sponsor to National Grid in respect of the WPD Acquisition.

Barclays Bank PLC, acting through its Investment Bank ("**Barclays**"), which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority, is acting exclusively for National Grid and no one else in connection with the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Barclays nor for providing advice in relation to the Transactions or any other matter referred to in this announcement.

Goldman Sachs International ("**Goldman Sachs**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for National Grid and no one else in connection with the Transactions and will not regard any other person as its client in relation to the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Goldman Sachs or its affiliates, nor for providing advice in connection with the Transactions or any other matter or arrangement referred to in this announcement.

Robey Warshaw LLP ("**Robey Warshaw**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as joint financial adviser exclusively for National Grid and no one else in connection with the Transactions and will not regard any other person as its client in relation to the Transactions and will not be responsible to anyone other than National Grid for providing the protections afforded to clients of Robey Warshaw, nor for providing advice in connection with the Transactions or any other matter or arrangement referred to in this announcement.

Apart from the responsibilities and liabilities, if any, which may be imposed on Barclays, Goldman Sachs or Robey Warshaw by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of Barclays, Goldman Sachs or Robey Warshaw, or any of their respective subsidiaries, branches or affiliates accepts any responsibility or liability whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this announcement, including its accuracy, completeness or for any other statement made or purported to be made by any of them, or on their behalf, in connection with National Grid or the Transactions. Each of Barclays, Goldman Sachs and Robey Warshaw and their respective subsidiaries, branches and affiliates accordingly disclaim to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to above) in respect of this announcement or any such statement or otherwise.

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 financial condition, its

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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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 those relating to the RIIO-2 price controls as well as uncertainty around economic recovery following the COVID-19 pandemic; 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; and customers and counterparties (including financial institutions) failing to perform their obligations to National Grid. 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 National Grid 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 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 National Grid 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 National Grid'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. 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 227 to 230 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 2020 published on 12 November 2020. 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. In relation to the Transactions these forward-looking statements will be qualified by the risk factors described in Part II (Risk Factors) of the shareholder circular which is expected to be published shortly. Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this announcement.

11/67064313_410

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL GRID plc

By: ***/s/Ceri James***

Ceri James
Assistant Company Secretary

Date:18 March 2021

EXHIBIT INDEX

Exhibit No.	Description
99.1	Exhibit 99.1 Announcement sent to the London Stock Exchange on 18 March 2021 — 'Proposed acquisition of Western Power Distribution and strategic portfolio repositioning '

6-K 1 sd6-k22april21coverxgmwpdv.htm 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

Date: 22 April 2021

Commission File Number: 001-14958

NATIONAL GRID plc

(Registrant's Name)

1-3 Strand
London WC2N 5EH, England
(Registrant's Address)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
☒ Form 20-F ☐ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3- 2(b) under the Securities Exchange Act of 1934. ☐ Yes ☒ No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

Please see Exhibit 99.1 Announcement sent to the London Stock Exchange on 22 April 2021 — 'Proposed acquisition of Western Power Distribution-‘Results of General Meeting’

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL GRID plc

By: ***/s/Ceri James***

Ceri James
Assistant Company Secretary

Date:22 April 2021

EXHIBIT INDEX

Exhibit No.	Description
99.1	Exhibit 99.1 Announcement sent to the London Stock Exchange on 22 April 2021 — 'Proposed acquisition of Western Power Distribution-‘Results of General Meeting’

EX-99.1 2 a22april2021-resultsofgmfi.htm EX-99.1

EXHIBIT 99.1

National Grid plc
22 April 2021
FOR IMMEDIATE RELEASE

National Grid plc ('National Grid' or the 'Company')

Proposed acquisition of Western Power Distribution

Results of General Meeting

The Company today held a general meeting ('**General Meeting**') in relation to the proposed acquisition of PPL WPD Investments Limited, the holding company of Western Power Distribution - the UK's largest electricity distribution business (the '**WPD Acquisition**') at 12pm at 1 - 3 Strand, London, WC2N 5EH.

The resolutions proposed at the General Meeting were decided on a poll and were passed. The results are set out below.

As previously announced, completion of the WPD Acquisition remains subject to the satisfaction or waiver of the conditions summarised in the circular published in connection with the WPD Acquisition. The WPD Acquisition is expected to complete by the end of July 2021.

The results are set out below:

Resolution		Votes For*	For (% of shares voted)	Votes Against	Against (% of shares voted)	Total Votes**	% of Issued Share Capital voted***	Votes Withheld****
1.	To approve the acquisition of PPL WPD Investments Limited	2,211,236,176	95.48	104,567,451	4.52	2,315,803,627	65.22	18,501,925
2.	To approve an increased borrowing limit	2,305,719,364	99.62	8,782,724	0.38	2,314,502,088	65.18	19,800,473

* Any votes that give discretion to the Chairman have been included in the 'For' total.
** Excludes Votes Withheld.
*** At close of business on Tuesday 20 April 2021 there were 3,550,669,831 Ordinary Shares in issue (excluding treasury shares).
**** A 'Vote Withheld' is not a vote in law and is not counted in the calculation of the votes 'For' or votes 'Against' a resolution.
As required by the Listing Rules of the Financial Conduct Authority, copies of the resolutions have been submitted to the Financial Conduct Authority via the National Storage Mechanism and will shortly be available to the public for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism

The complete poll results and details of proxy votes lodged before the meeting will be available shortly on the Company's website https://www.nationalgrid.com/investors/shareholder-information/agm

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CONTACTS

Investors and Analysts

Nick Ashworth	+44 (0) 7814 355 590
Angela Broad	+44 (0) 7825 351 918
James Flanagan	+44 (0) 7970 778 952
Jonathan Clay	+44 (0) 7899 928 247

Media

Molly Neal	+44 (0) 7583 102 727
Surinder Sian	+44 (0) 7812 485153

Teneo (Financial PR Advisor to the Company)

Charles Armitstead	+44 (0) 7703 330 269

Cautionary statement

This announcement is not intended to, and does not constitute, or form part of, any offer to sell or an invitation to purchase or subscribe for any securities or a solicitation of any vote or approval in any jurisdiction. The information contained in this announcement is not for release, publication or distribution to persons in any jurisdiction where to do so might constitute a violation of local securities laws or regulations. Shareholders are advised to read the whole of the Circular with care.

Neither the content of National Grid's website nor any website accessible by hyperlinks on National Grid's website is incorporated in, or forms part of, this announcement.

6-K 1 sd6-k14june21wpdcompleteco.htm 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16
OF THE SECURITIES EXCHANGE ACT OF 1934

Date: 14 June 2021

Commission File Number: 001-14958

NATIONAL GRID plc

(Registrant's Name)

1-3 Strand
London WC2N 5EH, England
(Registrant's Address)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.
☒ Form 20-F ☐ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3- 2(b) under the Securities Exchange Act of 1934. ☐ Yes ☒ No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

Please see Exhibit 99.1 Announcement sent to the London Stock Exchange on14 June 2021 — 'Completion of acquisition of Western Power Distribution'

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL GRID plc

By: ***/s/Ceri James***

Ceri James
Assistant Company Secretary

Date:14 June 2021

EXHIBIT INDEX

Exhibit No.	Description
99.1	Exhibit 99.1 Announcement sent to the London Stock Exchange on 14 June 2021 — 'Completion of acquisition of Western Power Distribution'

EX-99.1 2 island-completionrnsannoun.htm EX-99.1

Exhibit 99.1

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OF SUCH JURISDICTION

FOR IMMEDIATE RELEASE

14 June 2021

National Grid plc

Completion of acquisition of Western Power Distribution

National Grid plc ("**National Grid**") is pleased to announce that it has today completed the acquisition of PPL WPD Investments Limited (together with its subsidiary undertakings, (the "**WPD Group**")), the holding company of Western Power Distribution, the UK's largest electricity distribution business, from PPL WPD Limited, a subsidiary of PPL Corporation (the "**WPD Acquisition**").

Following National Grid's voluntary notification of the WPD Acquisition to the Competition and Markets Authority ("**CMA**"), the CMA is undertaking its merger review which has not yet concluded. As a result, and as is customary in such circumstances, the CMA has issued an Initial Enforcement Order, requiring the WPD Group to continue to be run independently from National Grid and under its existing management until the CMA review has completed.

Enquiries:

National Grid

Investors and Analysts

Nick Ashworth	+44 (0) 7814 355 590
Angela Broad	+44 (0) 7825 351 918
James Flanagan	+44 (0) 7970 778 952
Jonathan Clay	+44 (0) 7899 928 247

Media

Molly Neal	+44 (0) 7583 102 727
Surinder Sian	+44 (0) 7812 485 153

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

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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 the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also, more widely, 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 as well as increased economic uncertainty following the COVID-19 pandemic; 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; 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 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 acquisition 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. 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.

National Grid USA and The Narragansett Electric Company
Division 1-13

Request:

Paragraph 11 of the Petition states that PPL RI and National Grid elected to treat the Transaction as an asset sale for federal income tax purposes. Please provide all Documents related to the decision to make that election.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-13 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-14

Request:

Paragraph 41 of the Petition states that National Grid has "all necessary corporate actions" that "satisfy the requirements for stockholder approval under R.I. Gen. Laws § 39-3-24(3)." Please state the specific corporate actions taken by National Grid to satisfy the requirements of R.I. Gen. Laws § 39-3-24(3), and please provide Documents confirming that those actions were taken.

Response:

With respect to the shareholder approval contemplated in R.I. Gen. Laws § 39-3-24, National Grid USA took steps to assure consistency with the statute, although the Transaction does not fully align with the circumstances outlined in the statutory provision. National Grid USA obtained approval by its board of directors to complete the Transaction and National Grid USA owns 100 percent of the voting stock of Narragansett. Therefore, in its capacity as the sole voting shareholder of Narragansett, National Grid USA signed a written consent in lieu of a meeting authorizing the sale of Narragansett's outstanding common stock. A copy of that written consent is attached hereto as Attachment NG-DIV 1-14.

DocuSign Envelope ID: 257CEC22-978C-4228-AFD9-A818C391714F

THE NARRAGANSETT ELECTRIC COMPANY

WRITTEN CONSENT OF THE SOLE SHAREHOLDER OF THE NARRAGANSETT ELECTRIC COMPANY, A RHODE ISLAND CORPORATION (THE *"COMPANY"*)

As of March 17, 2021

National Grid USA, a Delaware corporation (the *"Shareholder"*), as the sole shareholder of all outstanding common shares of the Company, a direct, wholly owned subsidiary of the Shareholder, does hereby consent to, approve and adopt, with respect to all common shares of the Company held by it, the following resolutions:

WHEREAS, PPL Energy Holdings, LLC, a Delaware limited liability company (*"PPL"*), the Shareholder and PPL Corporation, a Pennsylvania corporation, have proposed to enter into that certain Share Purchase Agreement (the *"SPA"*), in substantially the form of the draft attached hereto as *Exhibit A*, pursuant to which the Shareholder intends to sell 100% of the outstanding shares of common stock, par value $50.00 per share, in the Company, to PPL (the *"Sale"*);

WHEREAS, the Company is a direct, wholly owned subsidiary of the Shareholder; and

WHEREAS, the Shareholder has determined that the Sale is advisable and in the best interests of the Company.

Approval of SPA

VOTED: That the form, terms and provisions of the SPA and all actions and obligations contemplated thereby or necessary to consummate the Sale and the other transactions contemplated thereby be, and hereby are, authorized and approved; and

VOTED: That any and all prior lawful actions taken by any officer of the Company or any person or persons designated and authorized to act by any officer of the Company in connection with the foregoing votes, which would have been authorized by the foregoing votes except that such actions were taken prior to the adoption of these votes are hereby severally authorized, ratified, confirmed, approved and adopted as being duly taken actions of the Company.

Any electronic signature hereof shall be of the same legal effect, validity and enforceability as a manually executed signature, to the fullest extent permitted by applicable law, domestic or foreign, including, without limitation, the Federal Electronic Signatures in Global and National Commerce Act and any state law based on the Uniform Electronic Transactions Act.

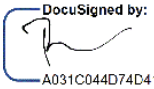
[*Signature Page Follows*]

DocuSign Envelope ID: 257CEC22-978C-4228-AFD9-A818C391714F

The undersigned further directs the Secretary of the Shareholder to file a signed copy of this written consent with the minutes of the proceedings of the Shareholder.

SOLE SHAREHOLDER,

NATIONAL GRID USA

by 

Name: Badar Khan
Title: President

National Grid USA and The Narragansett Electric Company
Division 1-15

Request:

Please state all corporate actions taken by PPL, its Shareholders, or its subsidiaries to authorize the Transaction, and please provide any Documents confirming those actions were taken.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-15 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-16

Request:

Section 5.5 of the Share Purchase Agreement indicates that 49,089 preferred shares of Narraganset are issued and outstanding. Please:

a. Describe the features of any associated preferred dividends, including their rate (i.e. annual yield), distribution schedule and whether they are cumulative, convertible or callable.

b. Indicate the current owners of those preferred shares;

c. Indicate the intended disposition of those preferred shares at the close of the Transaction; and

d. If ownership of the preferred shares will change as a result of Transaction, indicate the planned owners of those preferred shares.

Response:

a. Narragansett has one outstanding series of preferred stock, the 4.50 percent Cumulative Preferred Stock, $50 par value, with 49,089 shares currently issued and outstanding. Dividends are payable on the first day of February, May, August and November of each year, and are cumulative. Dividends are payable at an annual rate of $2.25 per share, or $0.5625 per quarter. With 49,089 shares outstanding, the aggregate quarterly dividend is $27,612.56.

   The 4.50 percent Cumulative Preferred Stock is not convertible or callable.

b. A list of the owners of the preferred shares, as of December 31, 2020, is provided as Attachment NG-DIV 1-16 Confidential. National Grid is providing Attachment NG-DIV 1-16 Confidential pursuant to a Motion for Protective Treatment in accordance with the Division's Rules of Practice and Procedure 815-RICR-00-00-1.3(D) and is providing a redacted version of Attachment NG-DIV 1-16 for the public record.

c. National Grid is only selling the shares of Narragansett common stock that it owns in the Transaction. Ownership of the preferred shares will not change as a result of the Transaction.

Prepared by or under the supervision of: Legal Department

d. As described above, there will be no change in the ownership of the preferred shares as a result of the Transaction.

REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRPRT 08:27 02/24/2021 PAGE: 1]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES

HOLDER ID	CLASS	BALANCE
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
D0000000019 CEDE & CO PO BOX 20 BOWLING GREEN STN NEW YORK NY 10274	P01 ***	43,799.000000 43,799.000000 *
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]		

HOLDER ID	CLASS	BALANCE
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted] *
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRPRT 08:27 02/24/2021 PAGE: 2]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES

HOLDER ID	CLASS	BALANCE	HOLDER ID	CLASS	BALANCE
[redacted]					

REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRPRT 08:27 02/24/2021 PAGE: 3]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES



REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRPRT 08:27 02/24/2021 PAGE: 4]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES



REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRPRT 08:27 02/24/2021 PAGE: 5]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES

HOLDER ID	CLASS	BALANCE	HOLDER ID	CLASS	BALANCE

********** NUMBER OF PAGES WRITTEN = 5 ********** END OF REPORT ********** NUMBER OF LINES WRITTEN = 182 **********

REDACTED

RUN:2111 DATE:12/31/2020 *** Register List By Class/Register *** [CLRTOT 08:27 02/24/2021 PAGE: 1]
THE NARRAGANSETT ELECTRIC COMPANY/NARG UIS/COMPUTERSHARE SHAREOWNER SERVICES

CLS	REG	CATEGORY	------ H O L D E R S ------ CURRENT	NIL BAL	SHELL	------C E R T S------ CURRENT	NIL BAL	UNITS	MONEY
4.50% PREFERRED									
P01	BUS	Issued Cap	14	5		14	5	1,126.000000	
		DTC	1	0		1	0	43,799.000000	
		BUS Totals	15*	5*		15*	5*	44,925.000000 *	
	CUS	Issued Cap	56	3		64	9	4,164.000000	
P01	***	**********	68	0		79	14	49,089.000000	
GRAND TOTALS			68	0	0	79	14	49,089.000000	

********** NUMBER OF PAGES WRITTEN = 1 ********** END OF REPORT ********** NUMBER OF LINES WRITTEN = 12 **********

National Grid USA and The Narragansett Electric Company
Division 1-17

Request:

Paragraph 37 of the Petition states that "the PPL Foundation will identify and support key charitable, philanthropic or community initiatives and programs in Rhode Island through donations. PPL also will make a contribution to the PPL Foundation in support of these commitments." Please:

a. Provide a list of any potential charitable, philanthropic or community initiatives in Rhode Island that the PPL Foundation has identified to receive donations after the Transaction is completed;

b. Explain the criteria process by which the PPL Foundation will identify any such causes to donate to; and

c. Provide the anticipated dollar figures that PPL intends to contribute toward these commitments.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-17 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-18

Request:

Please provide an organizational chart for (a) PPL and (b) PPL RI.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-18 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-19

Request:

Paragraph 23 of the Petition states that "PPL will ensure that Narragansett has a Rhode Island-based President with responsibility for Narragansett's operations and the necessary authority at PPL to ensure that Rhode Island has the resources and support to meet the needs of its customers." With respect to this statement, please explain the reporting structure for the Narragansett President and:

a. State to whom the President of PPL Rhode Island will report; and

b. Describe the authority that the President of PPL Rhode Island will have to make decisions without authorization from PPL or PPL Utilities.

Response:

Please see PPL and PPL RI's response to Data Request Division 1-19 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-20

Request:

Please provide all Documents, including internal corporate guidelines or protocols, that govern the relationship between PPL, PPL RI, and Narragansett, presently or post-Transaction.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-20 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-21

Request:

Please provide all Documents pertaining to PPL's capital investment allocation and approval processes.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-21 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-22

Request:

Please provide the credit ratings for PPL and each of its subsidiaries.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-22 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-23

Request:

Please provide a list of all outstanding loans made by any PPL subsidiary to another PPL subsidiary.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-23 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-24

Request:

Please provide a list of outstanding debt owed by a PPL subsidiary to a third-party that is guaranteed by another PPL subsidiary.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-24 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-25

Request:

Please indicate whether PPL intends to pledge the assets of PPL RI as collateral for any loans by third-parties to another PPL subsidiary.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-25 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-26

Request:

Please provide the capital structures of PPL, PPL RI, and all other PPL regulated utility subsidiaries.

Response:

Please see PPL Corporation and PPL Rhode Island Holdings, LLC's response to Data Request Division 1-26 for the requested information.

Prepared by or under the supervision of: Pamela Viapiano

National Grid USA and The Narragansett Electric Company
Division 1-27

Request:

Please explain and provide all related analysis, plans, and studies that form the basis for the proposed two year transition period.

Response:

National Grid USA's management team and PPL Corporation's ("PPL") team agreed that 24 months was the appropriate length of time for National Grid USA to provide services to The Narragansett Electric Company ("Narragansett") post-closing to enable continuity in operations throughout the separation process. The 24-month period is considered industry standard as it is typical to expect that it will take up to 24 months to transfer functions that rely on complex information systems from one company to another. This duration is also consistent with the Transition Services Agreement duration entered into as part of National Grid USA's divesture of its New Hampshire electric and gas distribution businesses in 2012. With respect to the PPL Rhode Island Holdings, LLC's acquisition of Narragansett from National Grid USA (the "Transaction"), as functions are transferred to Narragansett and PPL post-closing, the Transition Services Agreement will cease to apply to those functions so that the 24-month period is designed as the outside end-point. As National Grid USA and PPL proceed through the exit planning process until closing, they will agree to specific final durations for each transition service. National Grid USA will supplement this response to provide related analyses, plans, or studies, if any, that form the basis for those specific final durations. In addition, Section 2.1 of the Transition Services Agreement for the Transaction will provide for an extension of the 24-month period if Narragansett requests that any transition services continue beyond the end of the 24-month period, National Grid USA Service Company, Inc. (the "Service Company") agrees to provide such transition services beyond the end of the 24-month period, and Narragansett and the Service Company mutually agree to extend the 24-month period.