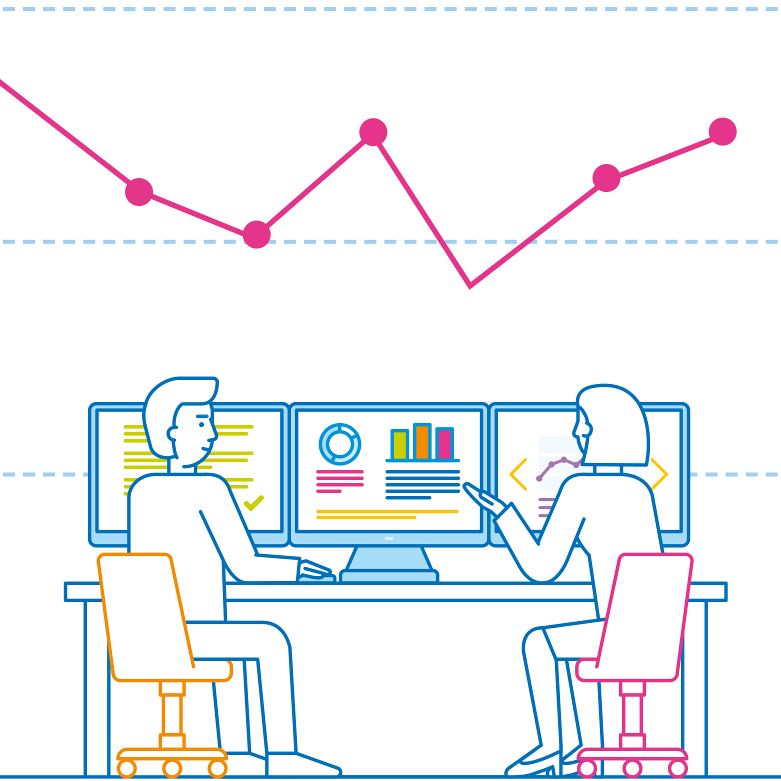
September 2020

VALUATION UPDATE

AN UPDATE FOR THE NATIONAL GRID ELECTRICITY GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME

2019 Group valuation results

an overview



Every three years, the Group must undertake a formal valuation of its fund and update members on the results. This update provides a summary of the most recent results as at 31 March 2019.

The Group Trustee is pleased to share these results with you, which they see as a significant and positive improvement since the previous valuation in 2016.

The results

- The Group's deficit has fallen by £264 million since 2016 – a marked improvement in the funding position since the last valuation.
- The deficit now stands at £237 million. This is compared to a deficit of £501 million at the previous valuation (31 March 2016).
- The Group's funding position improved to 93% – again a significant increase since 2016.
- The main reasons for the improvement have been better-than-expected investment returns and the additional contributions made by the Company.

The path to full funding

- The Company and the Group Trustee have agreed a 'Recovery Plan' with the aim of the Group reaching full funding by March 2024, with the last deficit payment being made in September 2023.
- Similar to previous valuations, the Group Trustee sees that combined with the additional protections (see page 11) this is a solid approach to addressing the Group's funding position.
- Deficit payments will be made at the rate of £53.6 million annually (increasing in line with inflation) from 2020 to 2023. The final contribution will be £26.4 million (again increased in line with inflation) payable by 30 September 2023.

Additional protections

Additional protections are in place to support the Group if certain triggers are hit, relating to National Grid's ability to provide financial support to the Group in the future.

Next time

The next full actuarial valuation is due to be undertaken at 31 March 2022. Regular updates on the Group's funding position will be provided to members in the interim.

The purpose of an actuarial valuation

An actuarial valuation is an in-depth look at the Group's finances at a specified date. This calculation is carried out by the Group Actuary, who provides specialist advice to the Group Trustee.

The estimated cost of providing the benefits that you and other members have earned to date is known as the Group's 'liabilities'. These include the benefits of retired members and their dependants.

The Group Trustee has invested money across a range of different investments, which are collectively held on behalf of all members (not individuals). These investments are known as 'assets'.

To check the Group's financial security, the Actuary compares the value of the Group's liabilities with the value of its assets at the date of the valuation. If the value of the Group's assets is less than the value of the liabilities, it is said to have a 'deficit'. If the assets are more than the liabilities, there is said to be a 'surplus'. The 'funding level' is the percentage of the liabilities covered by the assets.

The valuation results do not change the pension you are either already receiving or are due to receive from the Group.

Welcome

A message from Jon Carlton, Chair of the NGE Group Trustee

Welcome to the Group Valuation Update 2020, covering the outcome of the latest valuation of the Group at 31 March 2019.

I am pleased to confirm that the Group's funding position has significantly improved since the last valuation at 31 March 2016, with a reduced deficit of £237 million compared with the deficit of £501 million at the previous valuation – a reduction in the shortfall of £264 million.

As with previous valuations, the Group Trustee has worked constructively with the Company to agree a prudent but fair funding target for the Group, which balances security for members with affordability for the Company.

The Company and the Group Trustee have agreed a revised Recovery Plan, which maintains the existing level of deficit contributions until the Group reaches full funding. In addition, the agreement includes a number of additional protections similar to those that were put in place following the 2016 valuation.

Since the valuation date, the coronavirus outbreak has led to considerable uncertainty in the global economy, which in turn has had a significant impact on financial markets.

As we highlighted in the Summer 2020 issue of *Pensions brief*, we are comfortable that the Group is well protected by its investment strategy, which has been designed to be well diversified and resilient to severe market conditions.

I am pleased to tell you that our strong position has meant that we have not needed to take any specific additional measures. The Group Trustee will continue to work with our advisers to closely monitor the Group's funding level and the ability of the Company to support the Group, and we are prepared to act quickly if required and if our advisers' recommendations change.

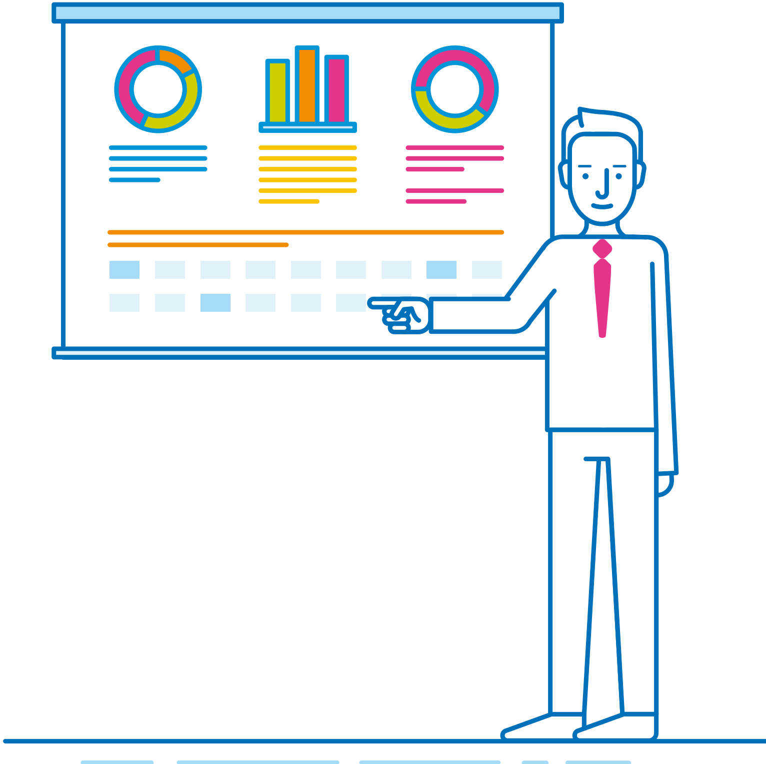
The next formal valuation of the Group's funding level will be carried out as at 31 March 2022 and the results reported to members during 2023. A summary of the next annual funding update, as at 31 March 2020, will be included in the Winter 2020 issue of *Pensions brief*.

The Group Trustee is pleased with the outcome of the valuation, which we view as being a fair settlement, taking into account the interests of all parties.

We believe that the Group continues to be well placed on its path to full funding and remains well protected by the strength of the Company.

Keep well and stay safe.

Jon Carlton, Chair of the Group Trustee
NGE Group of the ESPS



We appreciate the importance of keeping you regularly updated on the Group's funding position and in this update we have aimed to provide a thorough insight into the 2019 Group valuation outcome and process.
If you have any questions, please address them to: uk.pensions@nationalgrid.com. If any areas of interest or common themes are identified, we will aim to cover these in an article in the Winter 2020 issue of *Pensions brief*.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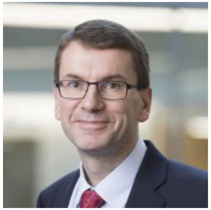
A message from the Finance Director



I am pleased that the 2019 valuation has been completed, with the outcome providing strong support to the Group and a shorter than expected timeline to full funding.

The valuation agreement reflects the Company's continuing robust commitment to finance its obligations to the Group.

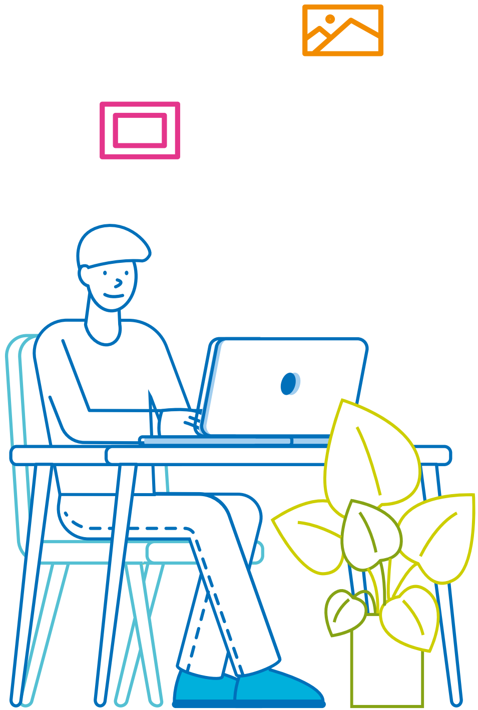
Despite the mixed investment return landscape since the previous valuation, it was pleasing to see the significant positive improvement in the funding position at the March 2019 valuation date. I am confident that the deficit contributions that have been agreed, together with the security arrangements in place, provide a strong platform to address the remaining funding shortfall.

National Grid plans to continue investing in the electricity transmission system over the coming years, facilitating the shift to more sustainable energy sources. This investment will also enhance the ability of the Company to support the Group in the long term.

Ofgem's consistent approach to funding regulated networks' historic pension liabilities also enhances the Company's support to the Group. Consequently, we are reassured by Ofgem maintaining its commitment to continue to fund efficiently incurred legacy pension deficit costs.

I would particularly like to thank the Group Trustee for their continuing hard work in managing the Group and for the comprehensive and constructive approach they took in negotiating and agreeing the 2019 valuation outcome. I am reassured and encouraged by the collaborative approach we maintain with the Group Trustee to ensure that the long-term funding of the Group continues to be managed effectively.

Andy Agg, Finance Director



The Group valuation: the details

What were the results of the 2019 valuation?

The table below compares the results of the 31 March 2019 formal valuation for the Group with those as at 31 March 2016.

In the years between full valuations, the Group actuary also carries out less detailed annual updates. The table therefore also provides an estimate of the Group's funding position as at 31 March 2018 and 31 March 2017.

	31 March 2019 (Group valuation)	31 March 2018 (Group annual update)	31 March 2017 (Group annual update)	31 March 2016 (Group valuation)
The value of the liabilities (technical provisions) was:	£3,381 million	£3,402 million	£3,445 million	£3,053 million
The assets were valued at:	£3,144 million	£3,061 million	£3,004 million	£2,553 million
This means that there was an estimated deficit of:	£237 million	£341 million	£441 million	£501 million
Funding level:	93%	90%	87%	84%

Please note: Any discrepancies in figures are likely to be as a result of rounding.

The Group's financial position has steadily improved since the last formal valuation, with the Group's (technical provisions) deficit reducing from £501 million to £237 million over the three years to 31 March 2019.

How has the Group's financial position changed since the last formal valuation?

The Group's financial position has steadily improved since the last formal valuation, with the Group's (technical provisions) deficit reducing from £501 million to £237 million over the three years to 31 March 2019. This was primarily due to Company contributions received over the period, combined with favourable investment returns on the Group's assets. Changes in market conditions led to an increase in the value of both the Group's assets and liabilities, but the value of the Group's assets increased by more than the value of the Group's liabilities, leading to an improvement overall in the funding level.

It has been agreed that deficit repair contributions will be maintained at their current levels in the future – £53.6 million a year, increasing in line with inflation from the valuation. The final deficit contribution will be £26.4 million, payable by 30 September 2023, again increased in line with inflation. Additional protections also remain in place to support the Group should certain triggers be hit, relating to the Company's ability to provide financial support to the Group in the future (see page 11).

What is the purpose of giving the 'solvency position'?

The fact that we have included the solvency position (see right) does not mean that the sponsoring employer is considering winding up the Group. The Group Trustee is required, by law, to give you this information.

The aim of both the Group Trustee and the Group's sponsoring employer is for there to be enough money to pay pensions now and in the future, but this depends on the Company continuing in business and being able to meet any new deficits as they arise.

Should the Company go out of business or decide to wind up the Group, it is required to pay the Group enough money so that an insurance company can be paid to provide all the benefits built up by members. This is known as the Group being 'bought out'.

The comparison of the Group's assets to the estimated cost of buying the benefits from an insurance company is known as the 'solvency position', as it represents the expected cost of securing all benefits payable from the Group. This is why the Company's continued ability to provide funding to the Group in future, as well as the additional security in place and the funding plan, are so important to the security of members' benefits.

Is there enough money in the Group to provide my full benefits if the Group was wound up?

Regarding the Group's solvency position, the actuarial valuation as at 31 March 2019 showed that the Group's assets could not have paid for full benefits of all members to be provided by an insurance company if the Group had wound up at that date. The assets would have covered around 77% of the liabilities (2016: 61%). This equates to a funding deficit of £955 million (2016: £1,623 million).

What happens if the Group is wound up and there is not enough money to pay for all my benefits?

If the Group were to wind up without enough money to buy all the benefits with an insurer, unless sponsoring employers of the Group can afford to pay the difference, you would be unlikely to receive the full benefits you were expecting in accordance with the Rules of the Scheme. To help members in this situation, the Government set up the Pension Protection Fund (PPF) in 2005.

The PPF pays a legally defined level of benefits to members of eligible UK pension schemes. This only occurs when the sponsoring employer becomes insolvent and the pension scheme does not have sufficient assets to pay the level of benefits payable under the PPF.

The Group Actuary is required to carry out a comparison of the Group's assets with the estimated cost of the benefits that would be provided by the PPF. On this basis, the Group is 114% funded as at 31 March 2019 (31 March 2016: 101%). This means that as at 31 March 2019, the Group's assets covered more than the expected cost of the benefits that would be provided by the PPF.

Further information about the PPF is available at: www.ppf.co.uk

For general enquiries, email: information@ppf.co.uk

Have there been any payments to the sponsoring employer?

We need to tell you if there have been any payments to the sponsoring employer from the Group. We can confirm that there have not been any such payments.

How does this affect those who work for Elexon and contribute to the Group?

Elexon is a ring-fenced 'not-for-profit' company which is wholly owned by National Grid. It contributes to the Group for a small number of employees who are members of the NGE Group. Elexon pays the same contributions as National Grid for future service accrual. In addition, Elexon is paying £49,867 per month until March 2022 to meet its share of the funding shortfall (this figure remains unchanged from the last valuation). To find out more about Elexon and its role in operating the Balancing and Settlement Code critical to the UK's electricity trading arrangements, go to: www.elexon.co.uk

The Pensions Regulator

The Pensions Regulator is responsible for regulating work-based pension schemes in the UK. Its aims include protecting members' benefits and promoting good scheme administration. You can find more details on the website at www.thepensionsregulator.gov.uk.

We need to tell you if the Regulator has used its powers in relation to the Group over the last year, for example, by changing the way future benefits build up, or the way the funding target is worked out, or amending the employer contribution rate.

We are pleased to confirm that the Regulator has not used its powers in relation to the Group over the last year.

Covenant and security arrangements

The Group Trustee continues to use the services of an independent covenant assessor to review the sponsoring employers that back the Group. This includes assessing their finances and continued ability to support the Group. The Group is fortunate to have well-financed sponsoring employers backing it.

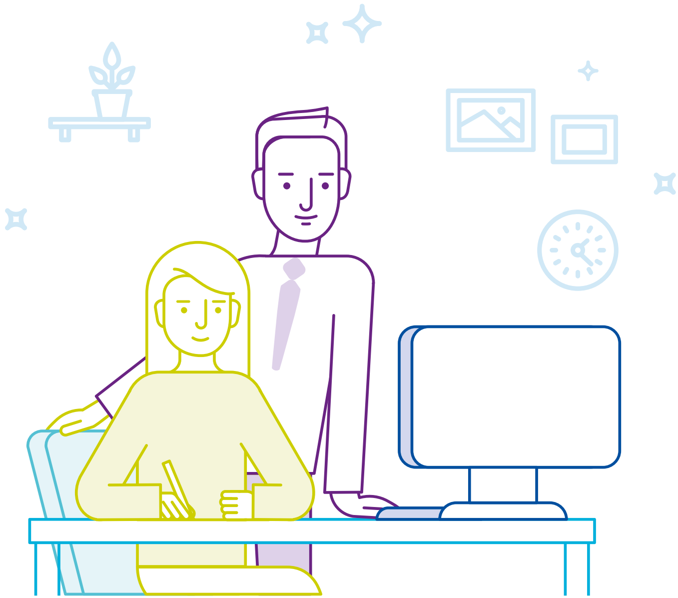
The Group's funding plan includes additional security arrangements over and above the deficit contributions that the Company is required make.

The Group's arrangements include additional funds that the Company has committed to provide to the Group, should its credit rating fall below a certain level. This protection was previously due to cease on 31 March 2026, but has now been extended to 31 March 2029.

The Company is also continuing to provide additional security for the Group which would be passed to the Group Trustee should certain conditions arise which would affect the Company's ongoing business.

Investment strategy update

The investment strategy is developed by the Group Trustee and their investment advisers, in consultation with the sponsoring employers of the Group. It sets out the target investment return and other investment objectives, such as the level of investment risk which can be taken. The Group Trustee aims to invest the Group's assets prudently to ensure that the benefits promised to members are provided.



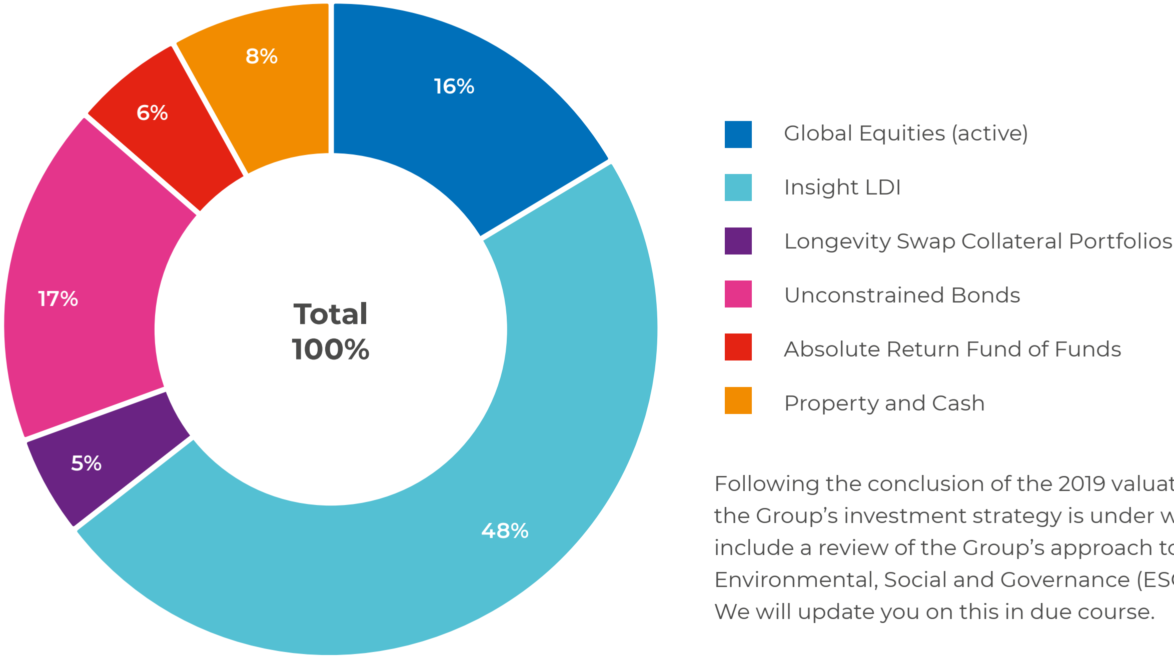
The Group invests across a range of different types of investment. The assets include:

- Government bonds and bonds issued by companies
- Publicly traded equities
- Property
- Other alternative assets.

Bonds are generally held to generate regular income and are expected to track the movement in the value of the Group's liabilities, therefore broadly matching the liabilities and reducing risk. In contrast, equities, property and other alternative assets are generally held to generate returns above that of the liabilities and are viewed as 'return seeking'.

The investment strategy is set to generate an appropriate target return while managing investment risk, ensuring that there is a balance between the matching and return-seeking assets.

The chart below shows the approximate split of the Group's assets between the different asset classes at 31 March 2019:



Following the conclusion of the 2019 valuation, a review of the Group's investment strategy is under way, which will include a review of the Group's approach to taking account of Environmental, Social and Governance (ESG) considerations. We will update you on this in due course.

Contact details

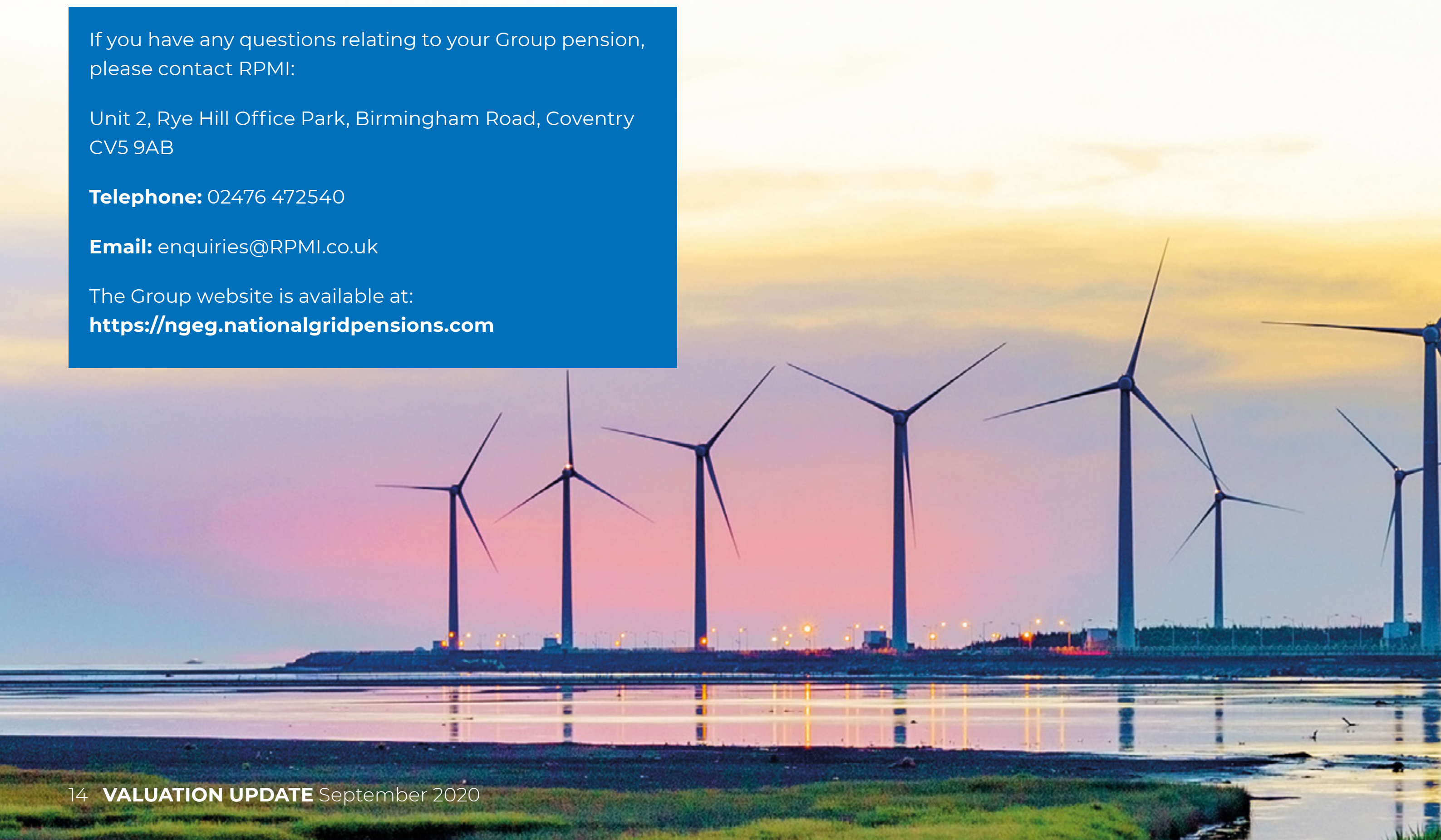
If you have any questions relating to your Group pension, please contact RPMI:

Unit 2, Rye Hill Office Park, Birmingham Road, Coventry
CV5 9AB

Telephone: 02476 472540

Email: enquiries@RPMI.co.uk

The Group website is available at:
https://ngeg.nationalgridpensions.com



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