

2015/16

# Half Year Results

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London | Tuesday 10 November 2015



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# Agenda

- ◆ Highlights
- ◆ Financial review
- ◆ Priorities & outlook

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## Highlights

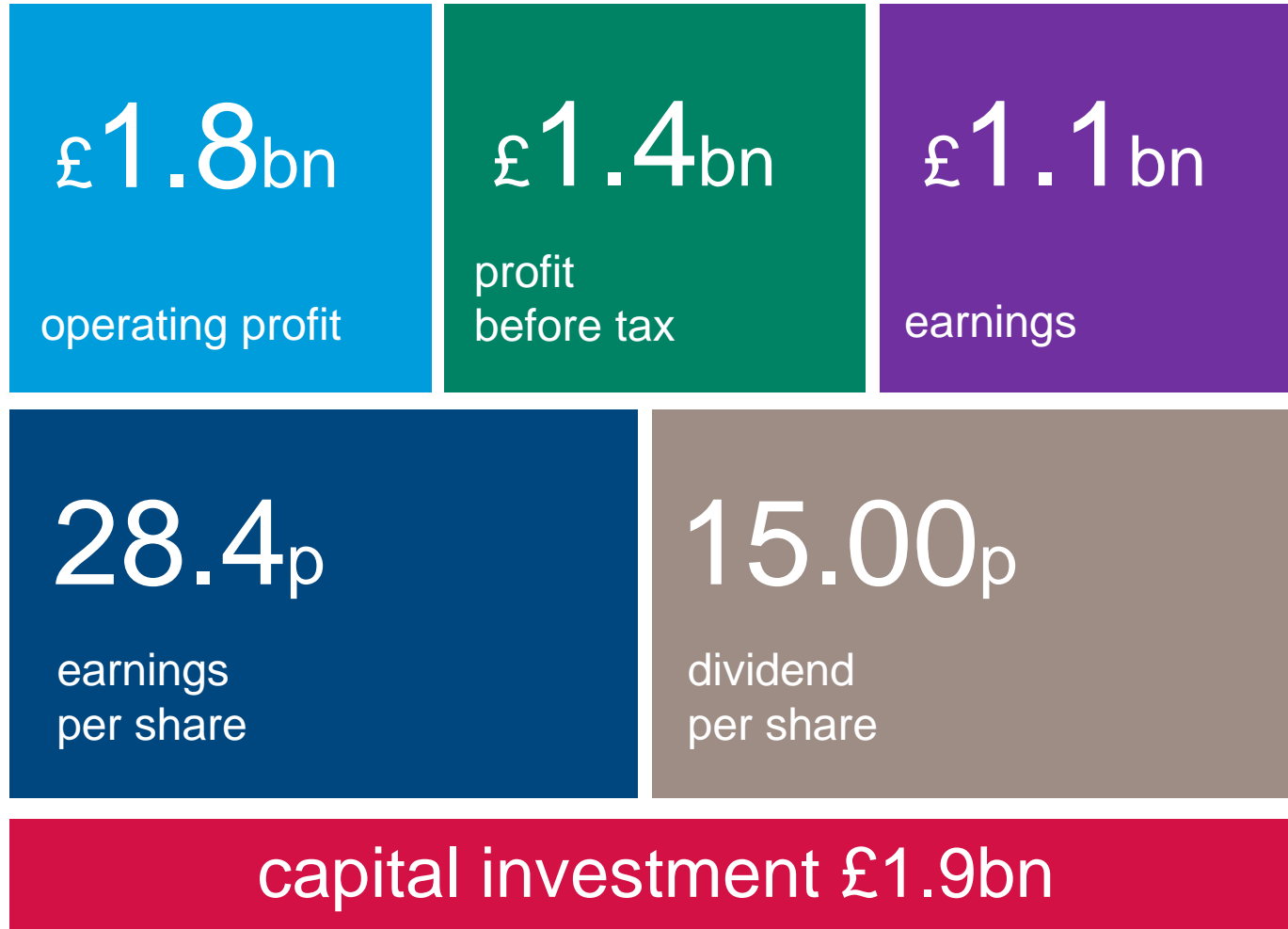
**Steve Holliday** | Chief Executive

## Portfolio update

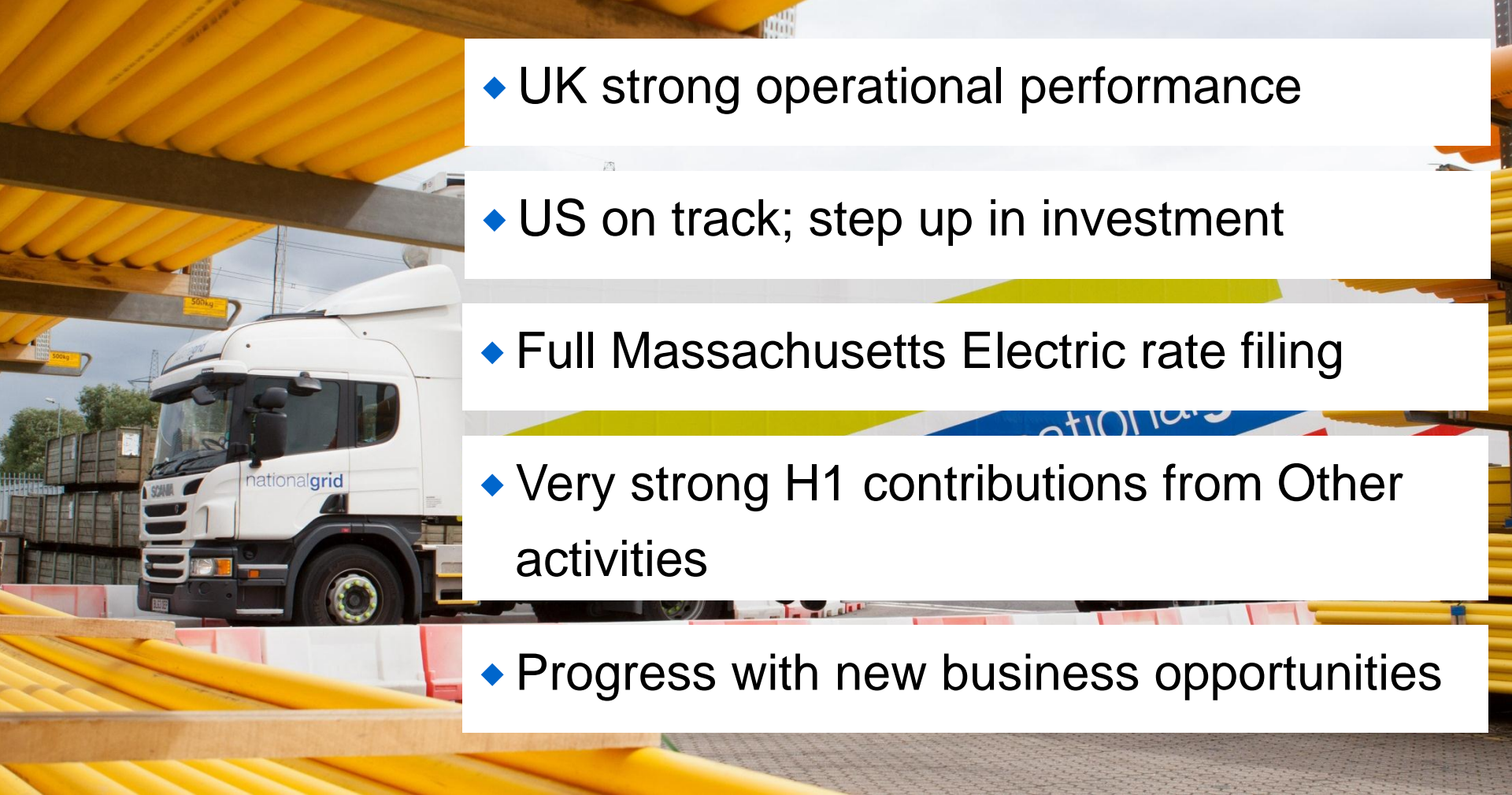
- ◆ Potential sale of a majority stake in UK Gas Distribution
- ◆ Rebalance the portfolio to deliver higher growth
- ◆ Beginning of the process
- ◆ Return substantially all net proceeds to shareholders
- ◆ Maintain the dividend policy



## Financial headlines




# On track for another good year

- 
- ◆ UK strong operational performance
  - ◆ US on track; step up in investment
  - ◆ Full Massachusetts Electric rate filing
  - ◆ Very strong H1 contributions from Other activities
  - ◆ Progress with new business opportunities

## Safety & reliability

- ◆ UK employee safety remains world class
- ◆ Strong UK network reliability
- ◆ US maintains good progress in safety performance
- ◆ Good performance during Rhode Island storm; prepared for winter



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## Business Review

**Andrew Bonfield** | Finance Director

# Performance on track

Operating profit and capital investment

	Operating profit	Capital investment
<b>UK Electricity Transmission</b>	£610m	£514m
<b>UK Gas Transmission</b>	£159m	£91m
<b>UK Gas Distribution</b>	£428m	£286m
<b>US Regulated</b>	£351m	£933m
<b>Other activities</b>	£288m	£95m*

\*including investment in joint ventures, excluding £55m equity contribution to St William property joint venture  
Adjusted results, excluding exceptional items and remeasurements  
All numbers include impacts of timing

# Electricity Transmission

Incentives			
Totex	Other	Add'l	Overall

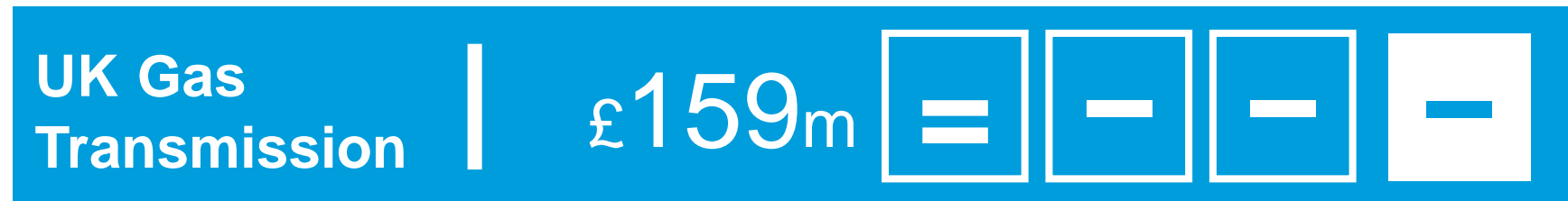


Expected year on year movement in returns

- ◆ Totex performance driven by capital efficiencies
- ◆ New balancing services incentive scheme
- ◆ On track for similar overall returns

# Gas Transmission

Incentives			
Totex	Other	Add'l	Overall



Expected year on year movement in returns

- ◆ Totex spend in line with allowances
- ◆ Expiry of permit income; overall good other incentive performance expected
- ◆ Additional (legacy) allowances ramping down from 2015/16 onward

# Gas Distribution

Incentives			
Totex	Other	Add'l	Overall



Expected year on year movement in returns

- ◆ Similar level of totex efficiencies
- ◆ Similar level of other incentive performance
- ◆ Overall performance in line with 2014/15

## US Regulated

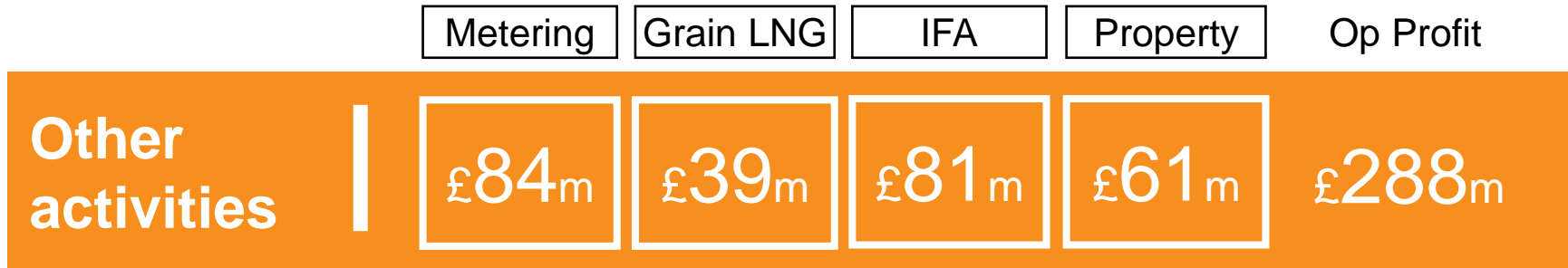
US Regulated

£351m

around 8%  
projected 2015 returns

- ◆ Operations performing well
- ◆ Controllable operating costs reduced
- ◆ Step up in growth of regulated assets
- ◆ Regulatory filings underway

## Other activities



- ◆ Metering and Grain to sustain steady performance
- ◆ IFA strong performance; H2 to be slightly less than last year
- ◆ Sale of two properties; likely to remain flat through H2
- ◆ End of US systems stabilisation costs in H1 2014/15
- ◆ Benefit from exchange of Iroquois Pipeline interest

# Interest, tax and earnings

## Finance costs

£493m

consistent with 2014

- ◆ Effective interest rate 3.7%
- ◆ Refinancing debt at prevailing rates





# Debt financing

- ◆ Cash-settled convertible bond
  - Non-dilutive
  - 5 years, low cost funding
- ◆ Commenced drawing the £1.5bn EIB loan at attractive rates and extended drawdown period

# Interest, tax and earnings

## Finance costs

£493m

consistent with 2014

- ◆ Effective interest rate 3.7%
- ◆ Refinancing debt at prevailing rates

## Effective tax rate

22.0%

at £(302)m

- ◆ Tax rate 70bp lower than 2014
- ◆ Reflects lower UK corporation tax rate

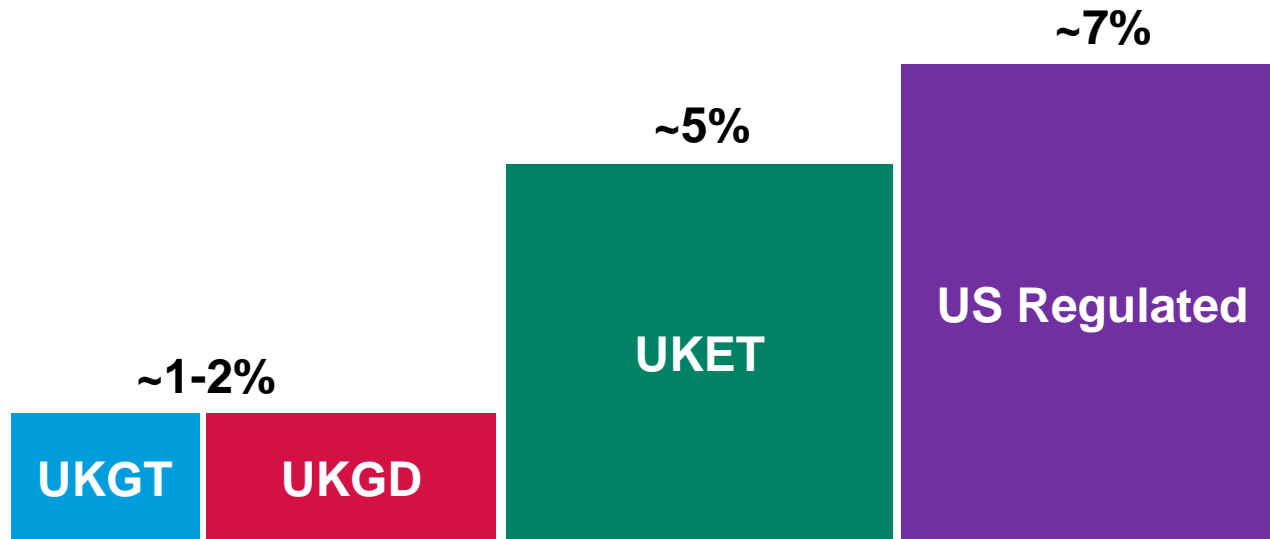
## Earnings per share

28.4p

- ◆ £1.1bn earnings
- ◆ 3,761m weighted average shares

## 2015/16 asset growth

~£3.7bn total Group investment for FY15/16



4-5% Group growth rate expected

# Cash flows and net debt

<b>Period ended 30 September 2015</b>	<b>£m</b>
Operating profit	1,836
Depreciation & amortisation	796
Provisions, incl. pensions	(284)
Working capital & other	333
<b>Net operating cash flow</b>	<b>2,681</b>
<b>Net debt</b>	<b>24,592</b>

Net operating cash flow

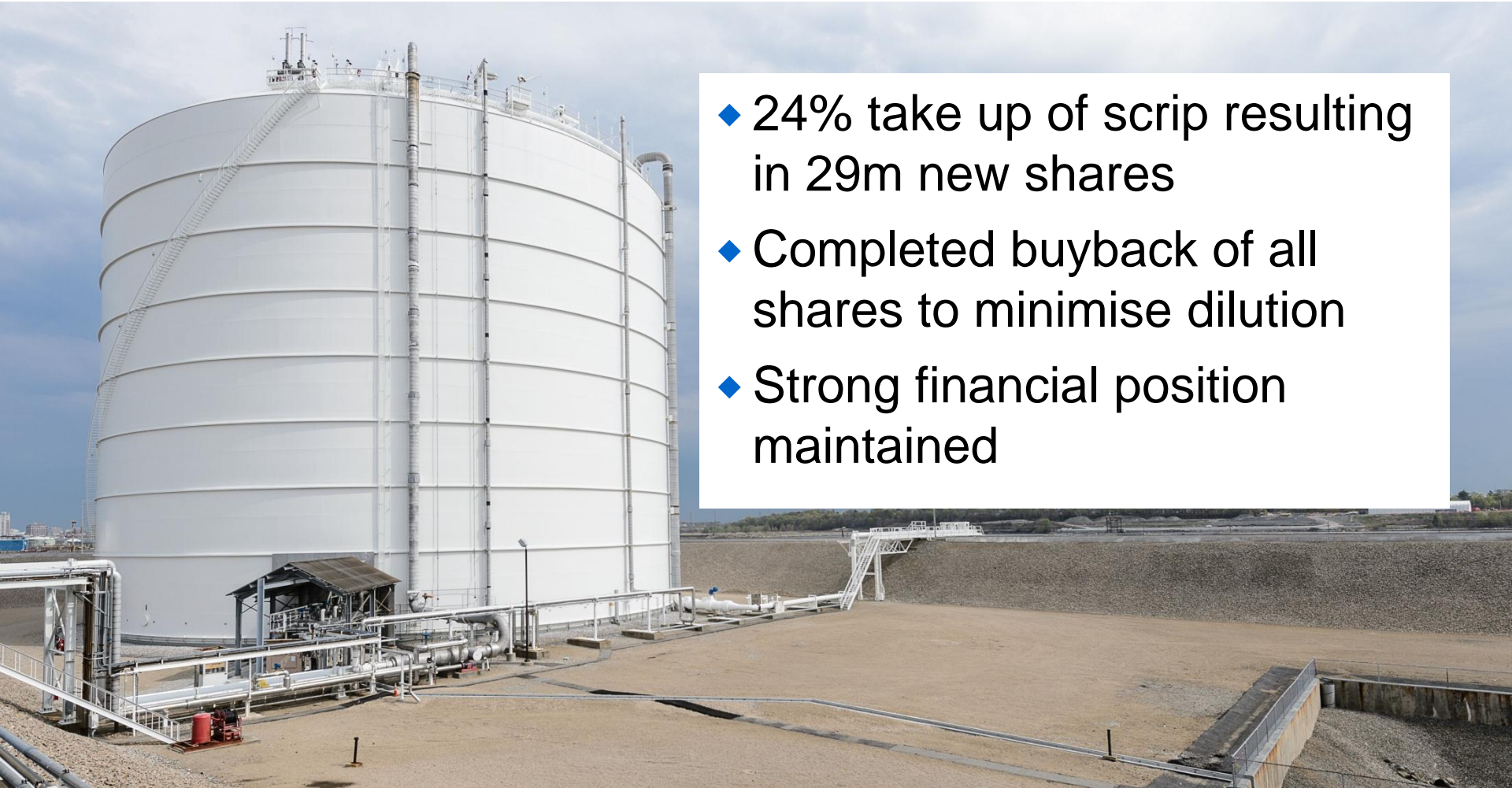
**£2.7bn**

Net debt

**£24.6bn**

# Scrip dividend and share buybacks

- ◆ 24% take up of scrip resulting in 29m new shares
- ◆ Completed buyback of all shares to minimise dilution
- ◆ Strong financial position maintained



## Technical guidance

- ◆ Maintain our outlook for regulated activities
- ◆ Increased expectations for Other activities profits
- ◆ Slightly lower interest charge reflecting lower RPI
- ◆ Increased capex forecast

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## Priorities & outlook

Steve Holliday | Chief Executive

## 2015/16 priorities

UK Electricity  
Transmission

Deliver efficient investment  
programme

UK Gas  
Transmission

Further important upgrades  
required

UK Gas  
Distribution

Priority to improve customer  
service

US Regulated

Sustain returns and growth,  
deliver new filings on time



# Winter outlook

- ◆ Margins expected to be tighter than last year
- ◆ 2.4 GW of supplemental and demand-side balancing reserve
- ◆ Effective demonstration last week

## 2015/16 priorities

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## 2015/16 priorities

US Regulated

Sustain returns and growth,  
deliver new filings on time

- ◆ Reduced costs despite upward pressure
- ◆ Increased level of investment; growth around 7%
- ◆ Downstate NY gas capital trackers approved; \$400m for KEDLI and \$900m for KEDNY over two years
- ◆ Agreed MA gas capital plan of \$219m in 2015
- ◆ Full rate plan filing for Massachusetts Electric filed last week; requests additional \$143m of revenue per annum

## 2015/16 priorities

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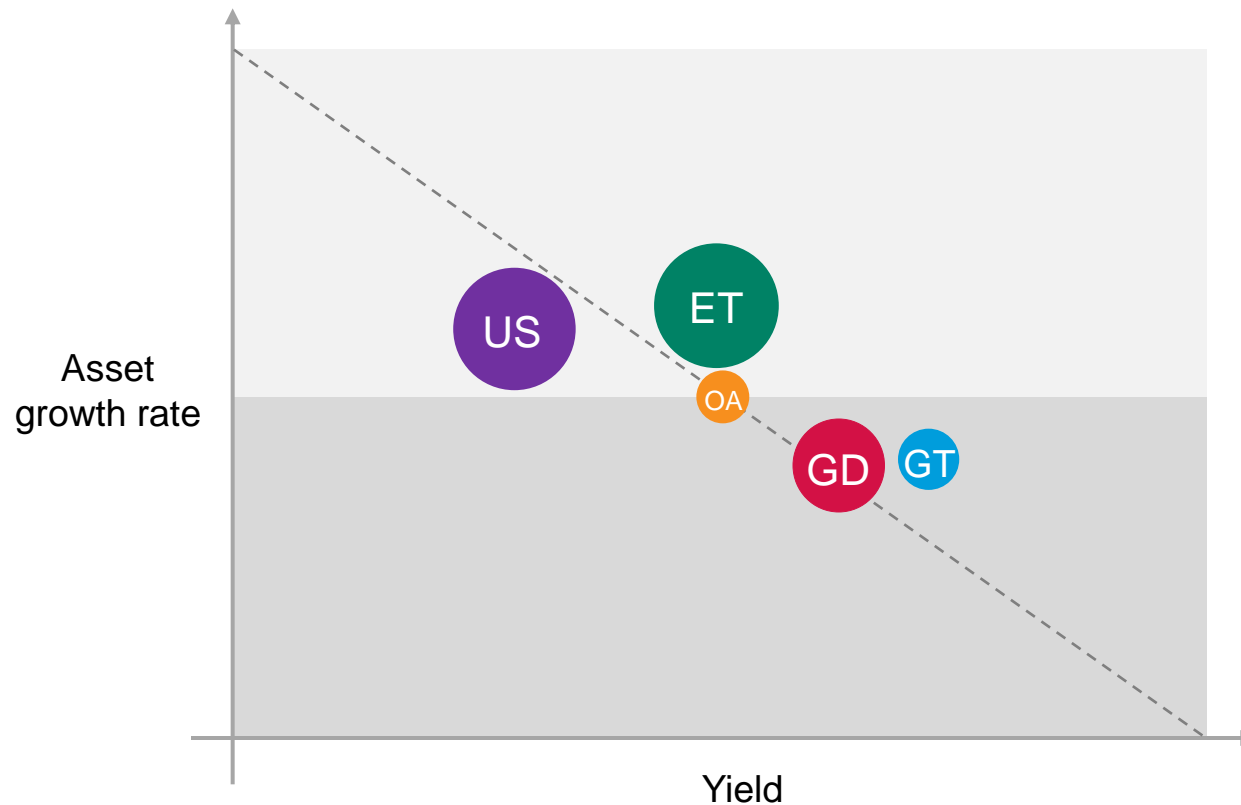
Sustain returns and growth,  
deliver new filings on time

Group

Rebalance the portfolio

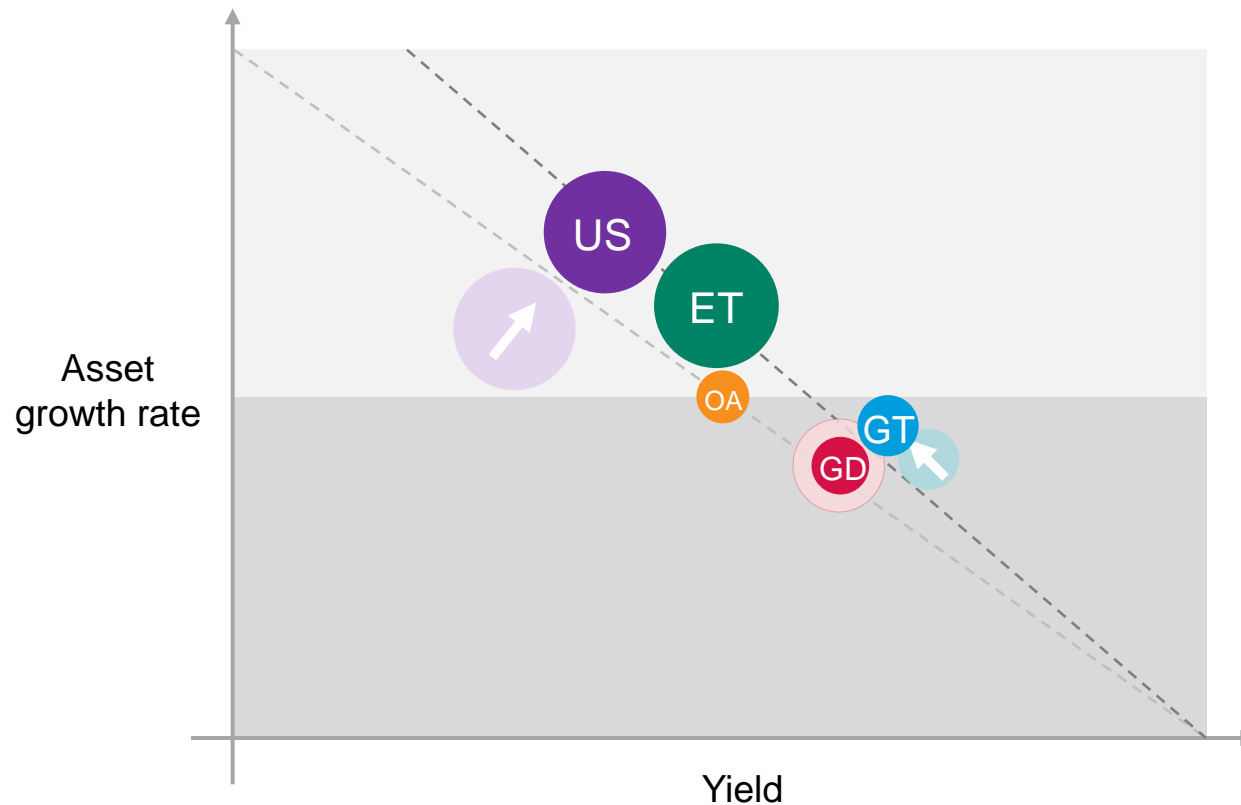
# Portfolio strategy

Opportunity to rebalance the portfolio to deliver higher growth



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## 2015/16 priorities

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Transmission

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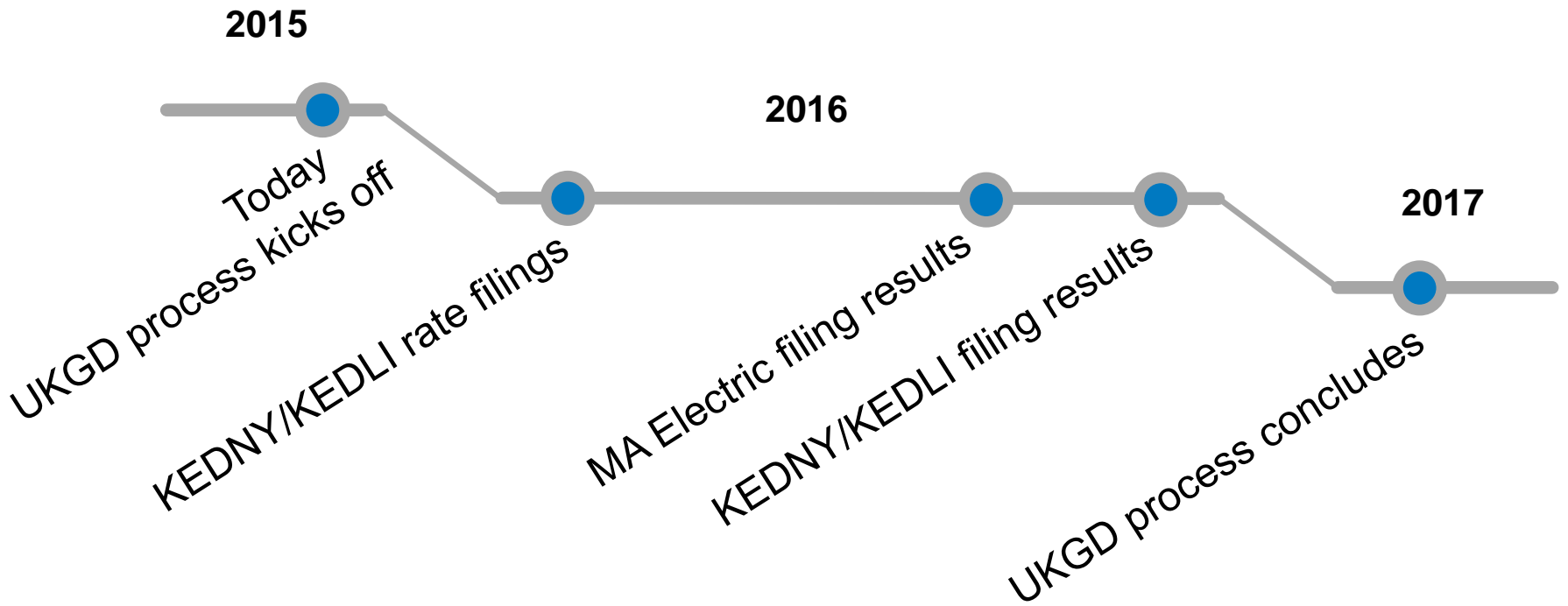
US Regulated

Sustain returns and growth,  
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Group

Rebalance the portfolio

# Timeline of milestones





## Summary

Strong first half; on track for another year of asset growth and good returns

The image shows the National Grid logo mounted on a building facade. The logo is rendered in a large, three-dimensional, metallic font. The letters are highly reflective, capturing the colors of a sunset or sunrise, with the sun appearing as a bright orange and yellow glow behind the 'i' and 'd'. The background of the building is a light, neutral color, and the sky above is a clear blue with some light clouds. The overall scene is captured from a low angle, looking up at the building.

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Q & A

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## Appendices

## Appendix 1: Pensions & other post-retirement benefit obligations (IAS19 data)

At 30 September 2015 (£m)	UK		US		NG total
	ESPS	NGUK PS	Pensions	OPEBs	
Market value of assets	2,367	16,558	4,705	1,732	25,362
Present value of liabilities	(2,679)	(16,486)	(5,612)	(3,122)	(27,899)
Net (liability)/asset	(312)	72	(907)	(1,390)	(2,537)
Deferred taxation	62	(14)	365	559	972
<b>(Liability)/asset net of taxation</b>	<b>(250)</b>	<b>58</b>	<b>(542)</b>	<b>(831)</b>	<b>(1,565)</b>
Discount rates	3.7%	3.7%	4.6%	4.6%	

At 31 March 2015 (£m)	UK		US		NG total
	ESPS	NGUK PS	Pensions	OPEBs	
Market value of assets	2,380	17,073	5,052	1,903	26,408
Present value of liabilities	(2,860)	(17,265)	(6,055)	(3,486)	(29,666)
Net liability	(480)	(192)	(1,003)	(1,583)	(3,258)
Deferred taxation	96	38	405	638	1,177
<b>(Liability)/asset net of taxation</b>	<b>(384)</b>	<b>(154)</b>	<b>(598)</b>	<b>(945)</b>	<b>(2,081)</b>
Discount rates	3.3%	3.3%	4.1%	4.1%	

## Appendix 2: Timing Impacts

£m	UK Electricity Transmission	UK Gas Transmission	UK Gas Distribution	US Regulated	Total
2015/16 Opening balance	(164)	(29)	16	153	(24)
Restatement of Opening Balance	(12)	(8)	3	46	29
2015/16 over/(under) recovery	33	51	(5)	(102)	(23)
<b>2015/16 Closing balance to (recover) / return</b>	<b>(143)</b>	<b>14</b>	<b>14</b>	<b>97</b>	<b>(18)</b>
2014/15 Opening balance	(67)	(11)	21	123	66
Restatement of Opening Balance	(8)	-	(18)	-	(26)
2014/15 over/(under) recovery	(6)	10	3	(38)	(31)
<b>2014/15 Closing balance to (recover) / return</b>	<b>(81)</b>	<b>(1)</b>	<b>6</b>	<b>85</b>	<b>9</b>
<b>Year on year timing variance</b>	<b>39</b>	<b>41</b>	<b>(8)</b>	<b>(64)</b>	<b>8</b>

## Appendix 3: Weighted average number of shares

Period ended 30 September	2015	2014
<hr/>		
Number of shares (millions):		
Prior period as reported (weighted average)	-	3,771
Current period opening shares	<b>3,739</b>	-
January 2015 dividend scrip shares	-	2
August 2015 dividend scrip shares	<b>29</b>	29
Other share issuances (weighted from issuance)	<b>(7)*</b>	-
<hr/>		
Weighted average number of shares (2014 restated)	<b>3,761</b>	3,802
Business performance earnings (£m)	<b>1,067</b>	883
Business performance EPS (2014 restated)	<b>28.4p</b>	23.2p

\*includes (11)m related to 29m shares repurchased since 1 April 2015