worldtelevision

wecreate. wedeliver.

connect inform engage inspire change

National Grid

Full Year Results Presentation

18th May 2017

NATIONAL GRID

Aarti Singhal, Director of Investor Relations

John Pettigrew, Chief Executive

Andrew Bonfield, Finance Director

Dean Seavers, US Chief Executive Officer

QUESTIONS FROM

James Brown, Deutsche Bank

Nick Ashworth, Morgan Stanley

Lakis Athanasiou, Agency Partners

Deepa Venkateswaran, Bernstein

Mark Freshney, Credit Suisse

Ajay Patel, Goldman Sachs

Dominic Nash, Macquarie

Unidentifiable Analyst

Iain Turner, Exane BNP Paribas

Christopher Laybutt, JP Morgan

Stephen Hunt, Barclays Capital

Sam Arie, UBS

Jenny Ping, Citigroup

Introduction

Aarti Singhal, Director - Investor Relations
Good morning, everyone and welcome to the National Grid's Full Year Results presentation this morning. I'd also like to welcome those of you who are watching this presentation online.

As always, safety first, and there are no planned fire alarm tests this morning, so if you hear an alarm, please make your way through these exits here to the end of the hall. Please also make note of the cautionary statement that's included in your packs.

As usual, after John and Andrew's presentations, there will be time for a Q&A, and all the material from this morning's session is on the National Grid website and on the Investor Relations app. So, thank you very much for your attention, and with that, I'd like to hand you over to CEO John Pettigrew.

Presentation

John Pettigrew, Chief Executive
Thank you, Aarti, and good morning, everyone. As usual, Andrew and I are joined this morning by Nicola Shaw and Dean Seavers.

Before we discuss our financial results today, I'd like to start with our safety performance, which, as you know, is core to National Grid. Every year, we develop safety plans focusing on critical areas to improve performance. Through delivery of these plans, last year we achieved a lost time injury frequency rate of 0.09, which is considered as world-class safety performance.

Safety is embedded in our culture, it's part of our DNA, but metrics are not everything, and there's always room to improve. Last year, we had a stark reminder of this when one of our UK employees tragically lost his life. As you'd expect, we've undertaken a comprehensive investigation, and we are implementing a number of changes to ensure that our focus is always on making sure that our employees, our contractors, and the public are safe.

So, turning to our financial highlights for last year, I'm pleased to report strong performance. On an underlying basis, this is excluding the impact of timing. Operating profit increased by 5.4% to £4.3bn, and underlying earnings per share increased by 6.1% to 66.1 pence. In line with our dividend policy, the Board has recommended a final dividend of 29.1 pence per share, bringing the proposed full-year dividend to 44.27 pence, an increase of 2.1%, reflecting last year's average UK inflation.

We continue to make significant investment in critical infrastructure across the grid, and once again, we set a new record, investing £4.5bn, an increase of 5%, at constant currency. This capital spend, when combined with year-end inflation, drove asset growth of 5%, which is in line with our stated range of 5-7%. So, as you can see, it's been a strong year of financial performance.

As always, ensuring strong reliability of our networks is critical, and we continue to prioritise our capital investment, delivering the best results for our customers. Here in the UK, we continue to achieve near 100% reliability across our networks.

In the US, we made strong progress and successfully met all of our key reliability targets. However, the true test of reliability in the US is how we perform when the weather is at its worst, and this year we experience significant storm activity, particularly in Upstate New York. Our biggest test was in March, where, over the course of a week, a windstorm was followed by snow and freezing rain, with services to over 400,000 customers interrupted. National Grid was able to respond swiftly, restoring power to the vast majority of our customers within the first 24 hours. Our response has been well received by key stakeholders, including the Governor of New York, who publicly praised National Grid's efforts.

Turning now to the key achievements and developments across the Group: last year was an important year in the evolution of National Grid. We had a very full agenda and significant commitments to deliver on. We successfully completed the UK Gas Distribution sale, a significant transaction with £4bn being returned to shareholders. We achieved a good outcome for our rate filings in the US, and in the UK, the mid-period review was completed, and we maintained strong performance within our eight-year price control, delivering significant customer savings.

So let me provide some colour on each of these. As you know, in March, we completed the sale of a 61% share in our UK Gas Distribution business. This concluded a long and complex process that involved separating Gas Distribution from the rest of our UK business, agreeing with pension trustees to split the scheme into three sections, and undertaking a major financing programme. The premium valuation we received reflected both the competitive auction process and the attractive financing we were able to achieve for the standalone business.

The process of returning £4bn to shareholders is now under way. We will return just under £3.2bn for a special dividend of just over 84 pence per share, and the remaining £835m will be returned by a share buyback programme. A general meeting to approve the necessary resolutions will take place tomorrow.

In addition, on the 31st of March, we announced that we have entered into an agreement for an option to sell a further 14%, on broadly similar terms, at any time between March and October 2019. So, overall, this transaction represents value realisation for our shareholders and strengthens National Grid's ability to deliver high-asset growth within our stated range of 5-7%.

In the US, the commencement of frequent rate filings has been a major step forward, and has put us on course for improved performance. The filing process itself went smoothly, with constructive engagement with our regulators and key stakeholders throughout. As you will recall, rates had remained unchanged since 2008 for KEDNY and KEDLI, and since 2010 for Massachusetts Electric.

We believe the outcome of the filings was fair, and, importantly, there was a clear recognition of the need for increased investment to modernise the networks. This was reflected in the approval of $3bn of capex for New York over three years, and a 46% increase to $249m per annum for Massachusetts Electric. These three businesses represent more than $7bn of rate base, and although the new rates were effective for only a portion of the year, they have already started to contribute to an improvement in performance, enabling us to achieve an ROE of 8.2%.

Moving to the UK: our businesses have continued to perform well, generating savings for customers and delivering value for our shareholders. We're now halfway through the eight-year price control, and have generated approximately £460m of savings, which will help to reduce bills over a number of years.

We've been able to achieve these savings through a combination of efficient delivery and innovation, which this year contributed to the 300 basis points of our performance above the base return. In addition, we've made significant progress on a number of regulatory topics. The mid-period review is completed, reaffirming Ofgem's commitment to the clarity and certainty offered by the eight-year price control. The review did result in some changes to specific outputs, but, as expected, there were no changes to the key financial parameters.

We also received further clarity on the Electricity System Operator role. Under the proposal, which is subject to ongoing consultation, the Electricity System Operator will be incorporated into a separate company, wholly owned by National Grid but with its own Board. The Electricity System Operator will carry out its existing functions as well as take on new responsibilities, including the promotion of smart solutions. I am pleased that the government and Ofgem have recognised National Grid's vast experience and expertise in balancing the electricity system and ensuring the market runs efficiently.

So, overall, I'm pleased to report significant progress on our key priorities. But, as some of you will recall, this time last year I emphasised the importance of not just delivering on our stated priorities but also ensuring we don't lose sight of the pace of change in our industry. Since then, we have been taking incremental steps to evolve National Grid, and later I'll share with you what we've been doing to build a stronger foundation for the future, but first, over to Andrew to discuss the financial performance in more detail.

Financial Review

Andrew Bonfield, Finance Director
Thank you, John, and good morning, everybody. As John has already highlighted, our financial performance was strong. The business has produced solid underlying results, and headline operating profit was enhanced by a number of events, including foreign exchange, timing, and the benefit of stopping depreciating our UK Gas Distribution assets.

As you know, we completed the Gas Distribution sale on the 31st of March. The accounting for this large transaction has added a layer of complexity to the results for the year. To help, I'll start by taking you through our total performance, including the results of Gas Distribution, before turning to the results of our continuing operations and our expectations for the next year.

Headline operating profit rose by 9% to £4.7bn, and, including the items I mentioned a moment ago, earnings per share increased to 73 pence. Capital investment was £4.5bn, an increase of £203m, or 5% at constant currency. Group return on equity was 11.7%, down slightly compared to a strong prior year. Importantly, our total regulated asset base, including Gas Distribution, grew by 5%, which led to a value added of £1.9bn. Together with our strong balance sheet, this supports our attractive total return.

Let me start by discussing the performance of each of our segments. Electricity Transmission had another strong performance, with a return on equity of 13.6%. We continue to focus on innovation and efficiency, to drive totex outperformance of 190 basis points. This was slightly down on the prior year, with increased spend to meet the required network output measures.

Other incentive performance, at 70 basis points, was mostly from the Balancing Services Incentive Scheme, which delivered £28m of operating profit. Additional allowances contributed 80 basis points of performance in line with the prior year. Headline operating profit of £1.4bn was up 17%, helped by a significant timing of £137m, together with inflationary increases and allowed revenues. Excluding timing, underlying operating profit was up 6% on last year.

Capital investment was just over £1bn, £57m lower than the prior year, as phase 1 of the London Power Tunnels and the Western Link neared completion. The reduction on these projects was partially offset by an increase in non-load-related spend to meet RIIO outputs. This investment, together with RPI, increased the year-end regulated asset value by 5% to £12.5bn.

Moving now to Gas Transmission, which recorded a return on equity of 10.8%. The returns were down on the prior year, reflecting the expected reduction in legacy allowances, and an increased spend on asset health to meet our RIIO T1 outputs. Other incentive performance remained strong, which enabled the business to slightly outperform its base allowed return.

Reported operating profit was up 5%, due to increases in allowed revenues and higher inflation. Excluding timing, underlying operating profit was up 7%. Capital investment increased by £28m to

£214m, reflecting investment on the Humber Pipeline Project and the step up in asset health spend. And the regulated asset value grew by 3% to £5.8bn.

In the last full year of ownership of UK Gas Distribution, the business maintained its strong performance, with return on equity of 14%, up 100 basis points on the prior year. Improved totex performance of 280 basis points was achieved primarily through capex efficiencies. Other incentive performance was 20 basis points higher, driven by the recognition of our performance from prior years. Headline operating profit of £898m was up 2%. The benefit of the lower depreciation by £96m following the announcement of the sale in December was partially offset by timing. Excluding these items, operating profit was down 3%. Investment increased slightly to £558m, and the regulated asset value increased to £9bn.

The overall return on equity in the US was 8.2% for the fiscal year, an improvement versus the 7.6% return for last year's comparable period. In New York, performance was up 70 basis points, reflecting the benefit of new rates in KEDLI and KEDNY, and the extension of the capital tracker Niagara Mohawk.

Performance in Massachusetts has started to improve as the new rates in the electric business came into effect. We expect to see a more significant impact on returns of these new rates next year. We saw low returns in Rhode Island from increased operating costs, principally due to storms and inflationary cost pressures. US headline operating profit of £1.7bn was up 45%, driven by weaker sterling and favourable timing. Excluding timing and foreign exchange, operating profit increased by £61m, which is a 4% increase.

Investment in our US networks rose to £2.2bn, or $2.9bn. The rate base grew by 6% to $19.3bn, and if you exclude the movement of working capital, the underlying rate base grew by close to 7%.

Operating profit in our portfolio of other activities was £173m. As expected, this is principally due to lower revenues from the French interconnector and last year's gain on the Iroquois gas pipeline transaction. Our Grain LNG and metering businesses both contributed consistent levels of profit. Operating profit in our property business increased to £65m as a result of further asset disposals, most notably the sale of our Battersea site. BritNed, our other UK interconnector, performed well. Its results are reflected in the JV line.

Corporate and other costs were around £11m higher than the prior year. This was due to a combination of one-off costs from delayed US business development projects and business change spend.

Post the disposal of Gas Distribution, National Grid is a smaller business, and we also need to recognise the pace of change in the industry. We have made a number of investments to ensure we are well positioned to meet our growth targets efficiently and, at the same time, build a stronger foundation for the future. John will elaborate more on this in a moment.

Capital investment in other activities increased by 42% at constant to £404m. This included spend on the NEMO and North Sea Link electricity interconnectors, and our investment in the solar partnership with Sunrun.

Financing costs increased by 6% to just under £1.2bn. This increase was due to the effect of RPI on index-linked bonds and higher average debt in the Group throughout the year. The effective interest rate increased slightly from 3.8% to 3.9%, reflecting the higher RPI. We raised almost £5bn in new long-term financing. This includes the record £3bn sterling bond which was issued in support of the Gas Distribution sale.

We continue to find innovative ways to fund our business: for example, the credit loans with the Italian and Swedish export credit agencies, which I mentioned at the half-year. The tax rate was 22.7%, 130 basis points lower than the prior year, reflecting a one-off settlement in the UK. Earnings increased to £2.7bn, and headline earnings per share increased to 73 pence.

Operating cash flow before exceptional items was £5.6bn, £108m lower than last year. Higher operating profits were offset by one-off pension contributions in the UK and US, and lower working capital inflows. Closing net debt was just under £19.3bn, reflecting the deconsolidation of the Gas Distribution debt and the fact that we hadn't distributed the net proceeds at year-end.

Let me explain the movements in net debt before returning to discuss our key credit metrics. As we've discussed at year-end, we hold US-denominated debt as a hedge against our US dollar assets. The weakening of sterling since the beginning of the year had the impact of increasing net debt by £2.4bn. This is offset by a corresponding increase in the sterling value of our US dollar assets.

Net debt also increased by £1.5bn from our normal business activities. The liability management exercise, together with the cost of disposal, contributed to a further £1.4m outflow. The deconsolidation of Gas Distribution debt and the receipt of gross proceeds on the 31st of March reduced total net debt by £11.3bn. All together, these movements resulted in the closing net debt of £19.3bn.

Looking now at our credit metrics: RCF to net debt was 15.8%, and 14.9% after reflecting the buyback of scrip. FFO to net debt was 23.3%, and interest cover was covered five times. Clearly, these metrics reflect the benefit of the lower level of net debt at the year-end. We have provided alternative metrics which adjust for this. As you can see, these are broadly similar to the prior year, and comfortably above the levels expected for an A- credit rating.

Gearing based on regulated asset base and adjusted for the impact of sale was 65% in line with the constant currency with the last year.

So, with our strong balance sheet position and good capital discipline, we are well positioned to invest over £4bn per annum and drive asset growth of 5-7% over the medium term.

Consistent with our policy, the Board is recommending a 2.1% increase in the total debt, based on average RPI for the year. This gives rise to a 2.7% increase in the final dividend, to 29.1 pence per share. We will continue to offer a scrip option and manage dilution.

Value added, which includes a full-year contribution from Gas Distribution, was strong at £1.9bn, or 51.6 pence per share. This is built from growth in Group assets of £1.7bn. Core assets grew by 5% despite the reduction in working capital and timing over recoveries in the year. Cash dividends and repurchased scrip totalled just over £1.7bn. There's a growth in net debt from our normal business activities of around £1.5bn. Our expectations for value added continue to support our commitment to sustainable dividend growth.

Before discussing our technical guidance, I want to take you through a more detailed look at this year's EPS and how this sets up for next year. As you know, headline earnings per share was 73 pence, including timing of 6.9p per share. Underlying EPS of 66.1p was split 49.5 pence per share from continuing operations and 16.6 pence from discontinued operations. However, discontinued operations includes 100% of Gas Distribution's performance despite the retention of the 39% stake. This means that, whilst all of Gas Distribution is deconsolidated from continuing operations in the current year, we will report at 39% share of profits from the associates in continuing operations next year. This is a quirk of accounting standards, so, for your benefit, we've calculated a pro forma continuing EPS for this year. Had we reported the 39% stake this year, it would have contributed approximately 5p to earnings per share.

The share consolidation and buyback is expected to reduce our weighted average volume of shares by around 300m shares in 2017/18, which will add just under 5p to earnings per share. For reference, we expect the full-year impact of this process to reduce the volume of shares by around 400 million shares. Together, and excluding timing, the pro forma continuing EPS would have been 59.2p per share.

Again, you will see that this means the pro forma continuing EPS will be around 7p lower than the current year underlying EPS. There are three factors which drive this. First: stopping the depreciation of Gas Distribution assets added around 2p to underlying earnings per share for the year. Second: the timing of the share consolidating and share buyback means that next year's EPS will be 2p lower than it will be in the future, once the full weighted average reduction in shares is used in the EPS calculation. Finally: there is approximately 3p of the earnings dilution, as we've sold around 15% of earnings but only reduced the share count by around 11%.

As usual, we have included a technical guidance section to support you with modelling assumptions. Let me take you through some of the key points. In the UK, Electricity Transmission revenue is expected to decrease following lower allowed base revenue and increased MOD adjustments. Despite lower incentive opportunities in electricity transmission, and the removal of legacy allowances in gas transmission, we expect the UK regulator business to continue to deliver 200-300 basis points of our performance, and we expect the favourable UK timing inflow to reduce significantly next year.

In the US, returns are expected to continue to improve to around 90% of the allowed return. Headline revenues are expected to reflect the benefit of new rate cases that will be in part offset by the returning of timing recoveries from this year.

The overall contribution from our other activities and ventures will be higher, as the business change and business development costs won't recur.

Net debt is expected to increase following the return of capital and as we fund our normal business activities. And our continuing interest charge is expected to increase, reflecting higher net debt and the impact of RPI on our index-linked bonds.

So, to summarise: the financial performance across the Group has been strong. Our continuing capital investment has increased almost £4bn, a level we expect to increase again next year, and our financial position remains robust, with good operating cash flows and a strong balance sheet. With that, I'll hand you back to John.

John Pettigrew, Chief Executive Officer
Thank you, Andrew. So, as I said at the start, we had a very full agenda last year, and I'm pleased to have reported the significant progress that we made. Our business is in great shape. However, it's important to recognise the pace of change in our industry, and also, following the Gas Distribution sale, we are a slightly smaller business.

We now have a folio that's shaped to deliver higher growth, and will invest around £4bn per annum over the medium term. A critical objective for me is that our organisation is able to take advantage of these changes. It's with this in mind that, in my first year, we made a number of investments in the organisation to enable us to meet our growth targets efficiently and to build a stronger foundation for the future. In particular, we worked on three overarching goals. First: to define our purpose, vision and values. Second: to ensure we have a clear strategic focus. And finally: to shape our portfolio for the long term.

I'm a strong believer that an organisation like National Grid needs to be a purpose-led organisation, because purpose matters to our customers, to our employees, and to the communities where we live and work. Our purpose, vision and values together guide the organisation in why we exist and what we stand for. This clarity is vital as we look to the future.

As an organisation, our purpose is to bring energy to life. So what does this mean? It means providing heat, light, and power that our customers rely on in their homes and businesses. It also means engaging and supporting communities where we live and work to find new solutions and contribute to the long-term sustainability of our environment. This approach will underpin how we run the business and our strategy for driving the business forward.

Our vision is to exceed the expectations of our customers, shareholders and communities today, and to make possible the energy systems of tomorrow. And our values are what we stand for. These are best captured by the words "Every day we do the right thing and find the better way." The simplicity and clarity of our purpose, vision and values will bring tangible benefits. We expected it to help us to attract and retain the best talent, and to deliver performance improvements. Engaging our employees to focus on our key stakeholders, and instilling in them a greater sense of social responsibility, will enable us to be a more progressive and successful organisation.

Our strategy is focused across three specific areas. First: we are finding new ways of optimising our operation performance to maximise value from our businesses and benefit the customer by improving affordability. Secondly: we are seeking opportunities to drive asset growth by investing in our core regulated assets, where we see strong potential. And thirdly: we are making changes to ensure that National Grid is evolving for the future.

We have brought together our other activities, which mainly comprise businesses that are adjacent to our core, to create a new division with its own leadership. It's called National Grid Ventures, and its objective will be to focus on the development and new growth opportunities, and to strengthen our commercial and partnership capabilities for the future. I am confident that it can drive considerable value, and I will describe more shortly.

Overall, our strategic focus is predicated on our customers. Their needs and their priorities must come first, and continued investment will enable us to provide an outstanding service that's safe, reliable and affordable. And it's important to recognise the context in which we are operating today, where affordability is right at the top of the agenda, from a customer, political, and policy perspective. As a responsible, purpose-led organisation, we must put into sharper focus the customers to whom we deliver, and that's exactly what we've been doing.

In the UK, in addition to driving savings through our RIIO mechanism, we've gone further. A recent example of this was our voluntary deferral of £480m of RIIO T1 allowances. This deferral will better align allowances with the likely timing of spends, and help to lower bills for customers in the near term. In addition, we took the opportunity to share with customers the success of the Gas Distribution sale, setting aside £150m from the proceeds.

And similarly, in the US, in our recent filings, we have applied our customer-first approach, including programmes that will provide high levels of customer service, assist the most vulnerable customers, and support economic development. We also structured the rate cases to reduce the bill impact, whilst allowing us to make the necessary investments in the networks. So, in both the US and the UK, we are proactively taking action, as we believe that ,by making decisions through a customer lens, it will enable us to deliver sustainable performance over the long term.

Now, turning to performance optimisation: under RIIO, we generate our performance by delivering efficiently. This efficiency results from process improvement and innovation that's building over time, and these improvements leverage our strong asset management capability. An example is the progress we made on our substation replacement project in Wimbledon. We've used a variety of technological innovations, such as a new type of switchgear and virtual modelling, to reduce the total cost of this project by 20%.

In addition, we continue to review opportunities to reduce our environmental impact. For example, we made good progress through trials in developing a low-carbon alternative to SF6, called 'green gas for grid'. It can deliver the same technical benefits, but at less than 2% of the global warming impact.

In UK Gas Transmission, as Andrew's mentioned, overall asset health investment is higher than anticipated, and so we are focussed on driving unit cost reductions and developing innovative solutions. For example, on our gas pipeline project under the Humber Estuary, we applied new construction techniques to lower our tunnelling costs, and at Aylesbury Compressor Station, we're installing catalytic converters to reduce carbon monoxide emissions, and just these two examples are expected to generate over £70m of savings.

In the US, one of the most important performance drivers is regular rate filings. As I mentioned earlier, we continue to make good progress, and we're starting to see the improvements in performance. This year, we'll see the full benefit of the filings from last year, and I believe that, for the US overall, we can expect to achieve 90% of the allowed returns in 2017/18.

Our objective for this year is to achieve a good outcome for our rate filing for Niagara Mohawk, which represents 30% of our US rate base. The filing made last year includes a revenue increase of $407m and capital expenditure $823m, enabling us to deliver the necessary investments to modernise the networks. We realise this is a significant request, so we've provided two additional years of data to facilitate a multi-year settlement. By next April, following the conclusion of the NiMO case, approximately 70% of our US rate base will be operating under new rates.

And, in addition, we expect to file the remaining distribution companies: Massachusetts Gas, and Rhode Island Electric and Gas, later this year, aligning the timing of these filings with key stakeholder goals and objectives. Regular filings are clearly important to achieving returns close to the allowed level, but we also need to be more efficient to offset inflation and keep costs down. We have a wide range of initiatives across the US, from process improvements to a strengthened procurement capability to a new capital delivery function focussed on improving our project management.

Moving on to our growth opportunities, starting with the UK: we are now halfway through the RIIO period, during which we've invested on average £1.3bn per year in the electricity and gas transmission businesses. And, as Andrew mentioned, during the second half of RIIO T1, we expect to maintain the spend at this level. In electricity transmission, the majority of our capital expenditure will be non-load-related, including the replacement of existing assets, system upgrades, and improvements to site safety and visual amenities.

The load-related spend mainly comes from the connection of new generation sources, although the majority of the work relating to the connections at Hinckley and Newgen is now expecting in RIIO T2. The gas transmission business is now expected to grow slightly faster, driven by projects like the Humber Estuary, together with spend on compressors to comply with environmental legislation, and we'll be reviewing our compressor strategy with Ofgem in 2018.

The existing price control concludes in March 2021, and Ofgem will start the RIIO T2 process with an open letter to the industry this summer, which will be followed by a strategy document in the first half of 2018. To ensure that we're ahead of the important process, we will already start to engage with stakeholders and undertake the necessary groundwork. In the context of the evolving energy system, we are excited about the range of opportunities and investment drivers that RIIO T2 will present.

In the US, regulated investment has been steadily increasing, reaching $2.9bn this year, and we expect this to increase again next year. More than half of this investment has been made in our Gas Distribution businesses, and it's driven by a combination of the need to replace aging infrastructure, such as leak-prone pipe, and by customer growth. We are now replacing 400 miles of leak-prone pipe per annum, compared to around 250 miles just four years ago.

On the customer growth side, we have less than 70% gas penetration across our territories. That means there are more than a million households that are still burning oil or another fuel, creating an opportunity for further investment.

And on the electric side, we are also seeing a strong level of investment, driven by the need to replace aging infrastructure and modernise the grid, and there is a potential for further investment if we transition to smarter networks.

Overall, as I've just outlined, there are multiple drivers for significant organic growth in our US business. With the capex plans that we currently have in place, together with the ongoing rate filings, we expect the US to deliver rate-based growth around 7% over the medium term.

Now, returning to National Grid Ventures, which I mentioned earlier: this division will be led by Badar Khan, who joined us in April as a member of my executive team. National Grid Ventures will comprise our Grain and metering businesses in the UK, our existing interconnectors and those that are under development, together with the distributed energy opportunities, including our partnership with Sunrun.

Although the asset base is currently quite small, the division is highly cash-generative, as evidenced by the EBITDA and dividends from the joint ventures, which together contributed over £400m last year. Through National Grid Ventures, we will enhance our growth by investing in projects that offer attractive returns with a regulatory underpinning.

We expect the contribution from National Grid Ventures to grow as we complete developing projects, such as the NEMO Link, which is expected to complete in 2019, and the North Sea Link, which will complete two years later. In addition, we recently made a final investment decision on a second 1GW interconnector to France, named IFA2. This will be a joint venture with RTE, requiring National Grid investment of just under £400m.

In the US, we have taken steps to become more active in distributed energy, partnering with the leading solar provider, Sunrun. In this partnership, we committed $100m in a portfolio of rooftop solar assets, which will allow us to better understand customer behaviour and the impact of distributed technologies on the network.

Separately, I should add that, given the different nature of the property business, it will remain within 'other activities'. This business continues to do well, and we're making good progress with Berkeley Homes on the St William joint venture. And last year, we started construction of nearly 1,000 homes at Battersea. So these are just some of the many opportunities that are under way, which will drive incremental growth and advance our portfolio.

So, in summary, we have delivered strong financial performance. We made significant progress on our priorities whilst creating a strong foundation to deliver value for our shareholders into the future. The UK regulator business is well positioned to deliver in the second half of RIIO T1, the US business is on track to improve returns, and National Grid Ventures is well positioned to take advantage of a pipeline of growth opportunities. And, with the completion of the UK Gas Distribution transaction, we have a strong portfolio underpinned by a robust balance sheet, that's positioned to deliver attractive long-term growth and dividends for our shareholders.

So thank you very much, ladies and gentlemen, for your attention. Andrew, I, Dean, and Nicola will be happy to take your questions.

James Brown, Deutsche Bank
Three questions, if I may, please. Firstly, just on capital investment, you mentioned lots of different areas for capital investment in the US. I was wondering whether you could just give us a bit of a flavour for key areas where you're focussing investment in the US?

Second question: obviously, going into last winter, there was a lot of worry and a lot of speculation that we could have a very, very tight UK power market, and maybe the SBR might have to be used a number of times, and we could see some very, very severe price spikes. So, obviously, we went through the winter and it was relatively uneventful, there were some price spikes - and there was a price spike yesterday - but I was wondering whether you could just give a bit of a review of how you felt the winter went, and how easy it was, whether it was as easy as it looked from the outside to manage the system?

And then, thirdly: as there has been a lot of talk about investment in storage technology in the UK, and Grid potentially having a role in that, I wonder if you could just tell us what you would like your role to be in developing storage technology in the UK, including batteries? Thanks.

John Pettigrew, Chief Executive Officer
Okay, I'll start with the capital investment in the US. This year, we invested $2.9bn. As we look forward, our expectation is that that will increase to about $3bn, and will provide asset growth of around 7%.

If you look about where that investment is, slightly more than half of it is in Gas Distribution, so that's predominantly doing asset health and safety work such as leak-prone pipe. The recent rate filing we did in KEDLI and KEDNY was $3bn over three years, and a lot of that was driven by that asset health and leak-prone pipe investment.

As we look to NiMO, we've got significant investment needed on the gas side, but also, we continue to need to improve the asset health of our electricity distribution networks in NiMO. So you would have seen that, in our filing, we filed for $823m for the first year. Over the three years, there's about $2.7bn for NiMO, and that reflects a step up from where we are today, so if you look at today's investment, it's around about $650m for NiMO, so it's - slightly more than half is gas distribution, but there's a strong element of electricity distribution as well. Our expectation over the medium term is, it will continue to grow by about 7%.

In terms of the winter, it's a question I get asked a lot, actually, about SBR, so just to recap a little bit: as we looked at the winter last year, based on the plant margins that we were seeing, we took the decision with Ofgem and with BEIS to procure about 3.5GW of strategic balance reserve. You'll recall that gave us a plant margin of just around 6%, or just over 6%, which we would describe at National Grid as sort of tight but manageable. What we saw through the winter was milder weather, so the reason it wasn't called upon was that the weather was milder than average.

We actually did some post-event analysis to see what would have happened had we had average weather, or even cold weather, and we're very comfortable actually we would have had to call upon it. So I wouldn't describe the winter as comfortable, but we didn't need it because of the mild weather. And the way I would describe it is: it's an insurance policy. So it was an insurance policy against that cold weather, against unexpected breakdowns, and that's £1.50 per household, I think, as it works out, the £180m - then it seemed like a sensible investment against that risk.

In terms of storage technology, our position is quite clear, I think, which is: if you look at how storage costs have come down over the last two years, they clearly are coming down at quite a rate. They're sort of following a similar pattern to solar. I think people are expecting them to continue to go down by about 6-8% per annum. There is the opportunity for storage, to be used, obviously, for energy arbitrage, but also for balancing services, and as an alternative - particularly at the distribution level, but potentially at the transmission level - as an alternative to investment.

The position that we've taken is, given where it is, in the technology development phase, the most sensible thing is to make sure that the storage has got access to as many markets as possible, and by doing that, it's more likely to drive costs down quicker. We think that, therefore, the network should be able to use storage as one of the tools when thinking about infrastructure investment. By doing that, it allows you to then basically stack up the different revenue streams of arbitrage, balancing services, and potentially as an alternative to infrastructure investment. We've laid that out in our responses to the consultation. I know there are other views in the market, but the logic of it is basically, we think - give storage as much access to the market as possible.

We'll go just behind, and then we'll come forward. I can't see who it is, sorry.

Nick Ashworth, Morgan Stanley
Good morning, thank you. A couple of questions. Firstly, just to dig a bit deeper on US returns. I'm just looking at year over year, Mass Electric, which has had new rates and, I think, for the last six months now, returns still look a little bit disappointing. Up, year on year, but still not brilliant. Is there - should we still be expecting that to meet the allowed ROE in the next 12 months, or is something in place which means that it's going to be difficult to achieve?

On the flip side, KEDLI and KEDNY, which have had rates in there for a shorter period, KEDLI in particular looks like it's had a very good year. Is there something one-off in there, or is that something that we should expect to continue?

And then, secondly, in terms of other businesses in the US, I think part of the one-off that you mentioned this morning was to do with some of the investments in non-rate-based activities in the US. Can you talk a little bit about what's going on there, and whether we should be expecting any of this to come through in the next couple of years? Thank you.

John Pettigrew, Chief Executive
I'll start with Mass Electric and Andrew can add anything he wants. So in terms of Mass Electric you're right, so we've seen a partial benefit of the rate filing. I think returns have gone up from 3.4% up 4.3% as a result of that. Our expectation is we will see a significant improvement in returns in Mass Electric next year. Because of the nature of the revelation in Massachusetts which is backward looking historical, there's always a real challenge to get to the allowed returns because even at the point which you've settled you're already out of date and you're fighting against inflation. But our aspiration is to get as close as we can to at least 90% of those low returns in Massachusetts.

In KEDLI and KEDNY it's very different because we can use a forecast for cost base and therefore our expectation this year is we're going to be much closer to those allowed returns. You will see an improvement in returns in the US next year both in Mass Electric and in KEDLI and KEDNY.

In terms of this year's performance it was down to really strong management in terms of managing the efficiencies within KEDLI and KEDNY. I think we had some benefits Andrew in terms of revenues, as a result of weather as well. So we got some benefits as a result of that but we just drove the performance quite well. But you can expect to see an improvement in KEDLI and KEDNY next year on the basis that we'll get the full year benefits of the late farming.

In terms of the other businesses and this is the costs associated I think you were talking about.

Nick Ashworth, Morgan Stanley
It sounds like Access North East and some of these other projects you've talked about historically - there may be some delays there and I was just wondering what's going on and should we be thinking about any of these things in the next year or two?

John Pettigrew, Chief Executive

So there are a couple of projects in particular that we decided to expense just based on the timing of when these projects will actually go forward is not entirely clear at the moment. So Access North East is one so this is a reinforcement of gas transmission pipelines into the North East. Recently there was a decision by the courts that actually electric customers cannot pay for gas capacity and therefore the mechanism and the regulatory approach for funding that project - we need to find a different way of doing that.

The need for increased gas in the North East hasn't changed and we saw the impact and we had the polar vortex in 2013 about what impact it can have. So there is still a desire to find a solution, we just need to find a regulatory and legal solution that works for everybody so we've taken the prudent decision to just expense the spend that we've had to date.

Similarly with Greenline we pay it forward for an RFP into Massachusetts, in the end the projects that were taken forward were solar projects rather than transmission projects. We still think it's a very viable project and we'll probably use it in one of the future RFP's that Massachusetts will run. But at this point we just decided to expense the cost.

Lakis Athanasiou, Agency Partners
Hi just to follow on from that I don't think you've given an exact number on those write-offs but it seemed to be about £40m, however when you're looking at other activities the cost seemed to have gone from about £100m last year up to £200m this year, capex also an increase. So you seem to have an overall cost increase of about 190 capex and opex up to about 340, how one off is that, what should we expect going forward on an ongoing basis? I mean I know you need costs to support the group but what's happening there?

Andrew Bonfield, Finance Director
I mean I think as I highlighted in my speech there are some one off investments we made at the central bay basically to get ready, that's people, process and systems for being National Grid. That's, A, first of all around making sure that as we shrink the size of the Group we actually shrink the size of the organisation accordingly. And then also make sure that as we're looking forward to the future we make some - investments and capability and process and systems basically to enable us to actually be more efficient and more nimble as we move forward so that's really where it is.

The cost element of that won't recur so about £60m in operating costs should not recur next year. Capex costs at the centre of May continue to be slightly higher than they have been historically and part of that is around IT infrastructure to enable us to actually be more flexible and work for good things like global procurement more efficiently and also things like a global HRIS system.

Lakis Athanasiou, Agency Partners
I mean that sounds like ongoing costs coming back down, opex about £100m and the capex maybe over £100m, does that sound about right?

Andrew Bonfield, Finance Director
That would be a fair assumption.

Deepa Venkateswaran, Bernstein

I have two questions, basically one is on the mid-term review that you concluded with Ofgem. So I understand that you won't be spending on Avonmouth and Fleetwood, I understand that these are not projects that you have otherwise costed in anyway, so I just wanted to understand that these are not disallowances, these are just projects that are not needed so you won't be spending?

And the second question is really looking ahead to T2 I mean we're still four years to go but could you just give us an idea about the timing on when you need to submit your business plans, when you might get an indication of WACC from the regulator for instance?

. . . .

John Pettigrew, Chief Executive
So in terms of Avonmouth and Fleetwood so I'll separate the two out so in terms of Fleetwood we never had it in any of our forecasts so it's historically - it goes back a number of years, we never expected to receive those allowances and Ofgem did it outside of the mid period review and just tidied that up actually in terms of the allowances so it has no impact on our projections going forward.

Avonmouth it was part of the Gas Transmission mid period review so there was only one item that Ofgem raised about the mid period review which was a potential pipeline reinforcement in the South West on the back of the closure of the Avonmouth LNG site. Based on their assessments that they did they disallowed that allowance on the basis that although we'd met the outputs we'd met them in a way that didn't require the investment in the pipeline so it was around about £127m of allowances that were reduced. So that was part of the mid period review, it didn't have a huge impact in terms of the gas transmission business so it's clearly narrow but that was one that was disallowed. But the Fleetwood wasn't part of the mid period review and we hadn't counted it as part of our business plan.

In terms of RIIO T2, I mean effectively as I said in the speech the process starts from here so we are expecting an open letter from Ofgem this summer. What we expect that letter to include is basically a set of questions that they think should be asked in relation to what's gone well in RIIO T1 and some of the questions they'd like some thoughts on in RIIO T2. That will lead up to a more important strategy document in the Spring/Summer of next year so the focus will be around exactly what's in that document.

From our perspective we've started our stakeholder engagement to make sure that we're feeding into that strategy document in a timely fashion. I think the intention is around about the Spring of 2019 is when you'd expect the business plans to be submitted and then the process will be, as you are familiar with as all price controls going forward from there.

. . . .

Mark Freshney, Credit Suisse
Two corporate finance questions. Firstly on the natural investment hedging that you do, you hedge out some of the UK businesses with RPI debt and you hedge out and swap the US business debt into dollar - from sterling into dollars. What is the total breakdown by RPI debt and dollars for the net debt and how should we think about whether that hedging changes going forward?

. . . .

Andrew Bonfield, Finance Director
Okay, so let me answer that. RPI debt has historically been about 25% total Group debt, so even though we've shrunk the UK business actually it's stayed about the same because we couldn't actually novate much of the RPI debt into the Gas D business itself. So that's gone up from - historically it was around about a third of the UK assets or UK debt, it's now about 50% of the UK debt.

We will not be issuing a new RPI debt for a while, we'll actually try and grow our way and get that back down over time into a more balanced positon which would be around 30 to 35% of total debt as we move forward.

On the US dollar at the moment we hedge US dollar assets plus goodwill, that's been the historic since the KeySpan acquisition. One of the things we've looked at is whether we should hedge goodwill as well because although that is a non-real cash flow related item the issue is today I wouldn't, those hedges are $1.30 to sterling, some of those hedges were taken out earlier. So again we'll grow our way out of that and over time I would expect us just to only hedge our US dollar assets rather than our US dollar assets plus goodwill Mark.

Mark Freshney, Credit Suisse
Thank you. And just secondly on the remaining stake in Cadent what is the way you think about that because I mean you've almost sold another 14% stake in 2019 so what is the way you think about that, when could you market that potentially and where would you look to put the proceeds to work, would it be in new ventures?

John Pettigrew, Chief Executive
Could you ask the beginning of the question again Mark?

Mark Freshney, Credit Suisse
So the 39% remaining stake in the Gas Distribution business which I understand has had a name change?

John Pettigrew, Chief Executive
The 39% has had a name change or the gas distribution? The gas distribution business that's no longer the consortium is called Cadent so with regards to the 39% as I said we've agreed an option to potentially sell the 14% and we've got the ability to do that between March and October 2019. Similarly the consortium has the same option so they can exercise it or we can exercise it.

With regards to the remaining 25% there's been no decision about how we take that forward, it's part of the portfolio and we'll consider it as part of the portfolio going forward.

In terms of the return of funds on the 14% again no decision's been made, close to the time we'll decide what's appropriate and whether to return that to shareholders or to use it for further investment in National Grid.

Ajay Patel, Goldman Sachs
Morning, I just wanted a little bit more clarity on the technical guidance on interest costs as in how different is the interest cost as a rate on the continuing business versus the discontinued - you kind of implied that maybe there was a slight increase on that rate maybe going into next year?

And then secondly in terms of your allowed returns the debt allowances are linked to a trading index of bonds, now given the rates have fallen quite a lot over the last eight years or so, how does that filter through as in do we expect the revenues to adjust as we go forward as that trailing index catches up to the current bond environment and what's your expectations on that?

Andrew Bonfield, Finance Director
Let me start with that first, I mean this year the bond index goes down from 2.3% real to 2.2% real on UK debt, effectively that will be adjusted in revenues this year and that's the revenue adjustment that goes through as part of the annual true up process.

Obviously you're right as time goes on the percentage above real will actually diminish and what we've always looked at as part of our treasury team is actually what they're issuing against the spot rate. Because ultimately at the end of the day if you issue over time against a spot rate there will be times obviously where you're going up and down against the allowed, but effectively you will outperform over time. So for example I think two years ago we gave the example of the Canadian dollar bonds which we issued actually at a below real rate of investment, EIB loan was marginally above real cost of debt. So there are things we do which will make sure that we continue to be able to outperform.

As far as the split of interest between continuing and discontinuing operations this has been a bone of contention within the company for the FT because part of what I've been challenging the team is how do we look at interest going forward. Because effectively this year we're actually issued very low cost debt into the Gas Distribution business. So actually what that has meant is it looks like the interest cost of the continuing operations is higher than it really should have been. But that is actually a reflection of actually what we did within the entity itself, so the 2.2% interest cost on the very large bond we issued for the Gas Distribution sale reflects into discontinued operations and that's part of the challenge.

So this year overall the overall interest rate increased by 3.8 to 3.9%, obviously within the split between continued operations effectively a lot of the liability management was older more expensive debt in Gas Distribution so that distorts that number a little bit as we move in. But as we look forward to next year, two factors, one which is RPI bonds which will increase with the average interest rate, two debt will rise from the 19.3. So as average debt rises effectively and that's part of the normal business cycle you will see increases in debt so those are the two factors.

Dominic Nash, Macquarie
Hi, a couple of questions please. Firstly I must say congratulations I've never seen so many EPS numbers reported, I think I'm now at eight. And on the presentation - there's no mention of the 73 pence per share adjusted earnings that you have in your headlines results, are you moving towards a new adjusted presentational number of an X timing number that us analysts should now start thinking about or will you still be reporting on the one to focus on the timing?

And a follow on question on that, on the value add earnings number, the 51.6 pence, how will you be treating Gas Distribution in the next year, would you be proportionally consolidating that or ignoring that?

And secondly, you're going to love this one Andrew, is that on a continual operation, a pro former, an underlying, timing adjusted basis?

Andrew Bonfield, Finance Director
Thank you Dominic for making me laugh during the middle of my speech as well so thank you. So yes so let me talk about earnings per share I mean part of the problem is as we know we're actually operating in an environment today where we are required to give details of alternative profit measures. So for us then to have added what I consider to be the real number for next year or the

base for the next year would have been too complex in the earnings release. So apologies for the complexity.

The number we're talking about effectively is the adjusted continuing ops, earnings per share excluding timing of the 59.2 that I was talking to, I think that really is the underlying base that you should be looking at that because that reflect effectively share buyback next year and the 39% stake in Gas D on an ongoing basis. So that would be my sort of base number to sort of work off.

Dominic Nash, Macquarie
And just to confirm, the analyst community would be putting another 7 pence higher than that - so we probably will need to adjust our numbers to match yours next year - correct?

Andrew Bonfield, Finance Director
Yes because with timing unfortunately is IFRS accounting, we have to account for it, it is as you've heard me say this is the one time IFRS does not work in a rate based regulated utility you have to recognise revenue in the income statement which is not your revenue. So that's why strip it out and highlight it to enable you to actually really see what the underlying is.

As far as the value add is concerned the value add going forward will include our 39% share of Gas D because that's part of effectively our regulator base going forward. This year it included 100% of Gas D, but obviously that also impacted our debt during the year as we move forward so that value add really reflects the dividend support and so forth and the number of shares. Next year obviously as we go forward asset growth will be based on the smaller business, but the number of shares which we pay the dividend on will be smaller and the debt increase probably as a result of that will be smaller, so that will be how you think about it. But it will comparable because it is a per share number.

Dominic Nash, Macquarie
But the net debt number that you calculate the growth in it this year is cumulative of timing effects?

Andrew Bonfield, Finance Director
The 1.5 includes timing because effectively timing comes off a rate base so just to add another layer of complexity to it. So timing is a deferral within the rate base, so the rate base is actually your growth is reduced as a result of timing being an offset against the RAV growth both in the UK and the US. I'm sure we could take you through it but it is one of the other complexities of this.

Unidentifiable Analyst
Two questions, the first one is do you have any interests in investing in fast charging network either in the UK or the US, in terms of the UK how could you imagine that working?

And then the second question is on gas security of supply, given that Rough is likely to, or will be out for the entire winter do you think there are any issues around that, are you comfortable with the gas security supply going forward if Rough doesn't come back?

John Pettigrew, Chief Executive

Okay so I'll answer the UK, I'll ask Dean to just update you on what we're doing on charging in the US. So in terms of fast charging I mean interestingly we've put a response in to the consultation for the industrial strategy recently just suggesting to government we think there is an opportunity to get the energy sector, technology sector, car manufacturers together to really think about whether creating a backbone of infrastructure in the UK to relieve the tension of sort of losing a charge when you're on long distances would be a sensible thing to do, if you believe that electric cars are going to a significant part of the transport solution going forward. And in terms of meeting some of the emission targets clearly electrification of transport is going to be a key component.

Recent forecasts we've seen people are talking about 20% of electric cars in the UK by 2030, to deliver that you would need a backbone infrastructure. And potentially if you're not fast charging you know one of the things that this is a very conceptualised idea but if you put fast charging at every service station in the UK, there's about 140 of them you could probably take that off the transmission system. So that it would enable that sort of tension people have about long distances to be removed.

So we've just got some early thoughts on it to be honest, but we've played them into the industrial strategy response to get people to start thinking about It, because there is I think a potential if you really want to push electric cars to make the backbone and infrastructure in place to relieve it. Yes we're actually doing some things in Massachusetts so Dean do you just want to mention what we're doing?

Dean Seavers, US Chief Executive Officer
Let me start with New York as well I think there's a number of tests that we have on charging stations in New York, we actually have one in the annual report, I think we removed the photo of that one but we actually have one as we're doing in Buffalo Niagara medical camp is some of the early ones. And I think that the benefit is that we've got in early as they were doing construction and all that so I think it's part of the customer focus we have.

I think with Massachusetts both in terms of existing charging stations but also as we look at grid mod there's a huge opportunity for us to do more with electric charging stations whether it's residential, whether it's multi-unit, but clearly as we look at the backbone that John mentioned in the UK there's a big opportunity for us to do that. We're actually starting to put it in our rate cases as well.

John Pettigrew, Chief Executive
And in terms of gas security, the simple answer is we set out in our summer outlook report you know given we know where we are, we have no concerns with gas security. So we've looked at the forecast and we continue updating, there will be another one in the winter outlook. But based on our understanding of how the markets are going to operate and what's available we don't have any concerns about gas security at the moment.

Iain Turner, Exane BNP Paribas
Can I ask a couple of questions. One is talk about US tax reform, I'm not sure how much tax you pay in the US but what you think the indicators of that might be for you?

And secondly looking to RIIO T2 one of the things that I think people have been quite surprised by is the level of outperformance you've been delivering. I think certainly one of the things that was highlighted in the recent Ofgem transmission report was that there were some situations where for example you'd quoted to build a new transmission route and you actually were able to get away with re-conductoring and whether you think that sort of out performance is going to be deliverable in the future or whether Ofgem will get a bit wiser about it?

Andrew Bonfield, Finance Director
On US tax reform I mean I think obviously is it very early in the process. We do not pay US taxes because effectively bonus depreciation means effectively that offsets all the cash tax payment, but that goes against rate base. So net, net if we ended up through changes either paying taxes, either that would the reverse the preferred taxation would either impact customer bills positively, probably or impact us as far as actually cash tax payments are concerned, but effectively that would be offset by growth and rate base.

The big challenges in the US are talking about what is going to be on deductions and versus rate and I think that's still a long way to go before that is defined. So we're keeping an eye on it, obviously we're watching what happens, there's some possible regulatory impact on that as well so we just need to see how it pans out Iain but it's probably far too early where the process stands today.

John Pettigrew, Chief Executive
So in terms of just out performance first of all Iain, I mean we set out that we're able to do a 2 to 300 basis points of outperformance. I quote Alistair Buchanan quite often so when we set out on the journey of RIIO T1 Ofgem stated very clearly that - you know an official organisation that's delivering innovatively can deliver those levels of returns and that's what we've been doing. And with that of course we returned £460m to customers.

So as long as we can demonstrate that the outputs that we're delivering are being delivered and they're being done more efficiently my sense is that Ofgem are comfortable with that and I know that Gemma and Dermot are very keen on incentivisation for utilities going forward, so I would expect that feeling into RIIO T2.

In terms of your specific example I think it's a great example actually so RIIO T1 is about delivering a set of outputs which are effectively about in transmission it's about shifting the risk. So through much more detailed asset management processes, looking at specific components like towers, like fittings and then conductors and finding a way of replacing the conductors and re-lifing the towers and the fittings to give that line the same life extension it would have had through a replacement. This is exactly what I think RIIO was intended to do. So I'm very comfortable that we've got much more detail in asset management capacity and we have a much better understanding of the asset health of the components and we're applying that to deliver efficiencies for customers.

Christopher Laybutt, JP Morgan
Just two quick questions. The first just on stranded costs, is there an impact on stranded costs from the Gas Distribution sale? And secondly Dean one for you just in terms of the rate case coming up the PSE has a number of members who've recently left at Public Service Commission, is there any indication that we may see any delays in that race case coming through because of the changes at the commission level?

Andrew Bonfield, Finance Director
On stranded costs there will be no stranded costs, we are working to make sure we eliminate them completely.

Dean Seavers, US Chief Executive Officer

We don't see any delay in the rate case I mean clearly the staff are still there so we're progressing through the normal process. They've also nominated a new chairman recently so we see the rate case progressing according to plan.

Stephen Hunt, Barclays Capital
With respect, obviously you talk about Ofgem and their letter expected in terms of kicking off the RIIO T2 and GD2 rate cases. Ofwat has been talking quite aggressively in terms of cost of equity into their next regulatory period, have you had any preliminary discussions with Ofgem on how they are looking at this?

And obviously we've seen some very high recent valuations, most notably your own gas distribution state sale in terms of premium to RAV and how do you actually, you know do you believe your actual cost of equity has come down markedly in the current regulatory period and how do you see that evolving going forward? Or is this more a sort of a macro short term play, you don't think it's any sustained basis in terms of potentially lower cost of equity to justify some of those recent high valuations?

John Pettigrew, Chief Executive
In terms of the RIIO T2 process it's literally just starting so the answer is we haven't engaged with Ofgem yet about what's an appropriate cost to capital going into RIIO T2. There is still four years to go. For those that have been around long enough you'll know this is like year one of a price control you know when we had a five year price control. So there's still plenty of time but we want to get ahead of it.

I think the strategy document that will come out next summer will give a good indication I think of how they're thinking about it and obviously you've got the online team to feed into that. From a Gas Distribution perspective, Ofgem - in terms of the sale Ofgem were very supportive through the whole process of making sure we were able to do that. But we didn't get into a conversation around what does it mean in terms of cost to capital.

Andrew Bonfield, Finance Director
Okay so a couple of things, one which is on Gas D sale, a couple of things that helped the premium to RAV that was reported, one which was the financing was incredibly low cost, remember we financed this vehicle from scratch. We took the cost outside in National Grid as part of the cost of sale but effectively because of the liability management exercise this had a very low cost of debt, £3.6bn of new debt raised at 2.2% interest rate compared to regulatory allowance so that's part of the RAV multiple.

Secondly, and as Ofgem made clear as part of the sale process, and in fact in their letter to all potential bidders, Ofgem's obligation was to fund the RAV only but also to fund the regulatory gearing ratio. Effectively that means that anybody who's putting gearing above effectively gets the benefit of leveraging their return on that and that's what people pay for and that also drives RAV multiples. So I think that is very clearly still within the regulatory construct

On our weighted average cost of capital actually there's been marginal benefit but that's mostly due to lower interest costs. Actually from a return of cost of equity perspective your people like Mark Carney are getting up and saying actually throughout the financial crisis the actual cost of equity has not diminished and the equity risk premium is actually the same as it was pre-crisis. One of the facts that's drawing out is actually it's extracting money into pension liabilities so effectively his concern is that you see asset growth and pensions actually not growing as fast as you see the diminution effectively as a result of the liability increases. That's why he's very focussed on this and he's actually talking about equity risk premiums staying around the same level of 7%.

So I think there are other people that have other views, I think that will be part of what we will have to present as part of the overall RIIO T2 process and also there's another four years to go before we get there so I think we just need to see what happens, we're starting to see tick up of bond rates, we'll see what happens over the next couple of years.

Sam Arie, UBS
Hi, I think I remember last time I was here just mentioning how I'm always impressed that National Grid keeps very well out of the political spotlight. And I've just noticed that in today's discussion we've hardly talked about there being an election or that one of the party's has a manifesto that seeks to return national infrastructure into public ownership over time. So I just wondered if it's maybe worth giving your thoughts on those proposals and how you're reacting to them?

And if I could squeeze a second question in quickly, the other thing that has been arising in the news recently is cyber security and risks for infrastructure companies and I'm sure you're monitoring cyber-attacks or attempts to breach your systems, can you comment if you've seen any increase in that over the last year and what you think about that one going forward?

John Pettigrew, Chief Executive
Let me start with the political spotlight, our focus on the UK and the manifesto, so I clearly haven't seen the Conservative manifesto, I think it's coming out literally in the next hour or so. But one of the topics that relates to the sector of course is the price cap. I think from our perspective we understand why politicians would be thinking about energy prices it's a large part of consumers disposable income, so it's not a surprise that people like Teresa May would be focussing in on it.

I think from our perspective we just remind people as a transmission business in the UK we represent 3 to 5% of the bill so of the typical £700 or £800 for gas and electricity we're £26 of the bill for electricity transmission and £19 for gas transmission. And our mind set and focus is very much around driving efficiency. And I think in the last 12 months we've demonstrated that with the £460m that we've saved over the first four years. And in fact we put a voluntary allowance back to Ofgem for £480m. So I understand why they're doing it but from a National Grid perspective we're focused on reminding people we're 3 to 5% of the bill and very much focussed on driving efficiency.

In terms of the Labour manifesto and renationalisation now I actually started in National Grid a couple of months after privatisation so I remember going right back to the type of organisation that we were then being government owned. And over those 20 odd years the innovation and the efficiency that's been driven in the transmission businesses in the UK has been phenomenal, it's around about 40% reduction in real terms. And at the same time we're world renowned for our safe and reliable networks and we're actually transforming the networks at the moment with the new energy that's coming on.

So to spend tens of billions of pounds of taxpayers' money on renationalisation doesn't look sensible and I don't think it's in the interest of energy consumers either. So we'll work with whoever is in government, that's the role that we play, we're at the heart of the energy sector in the UK and in the US and we always work with the governments but clearly nationalisation we do not think it's a good idea.

In terms of cyber I mean it's a great question, I think everybody is focussed on cyber just from the events over the weekend, I mean fortunately that event did not have an impact on National Grid. And over the last few years we've continued to ramp up our investment both in terms of looking after our real time systems which are really critical in terms of the delivery of our energy. And we've introduced continuous monitoring, we have a control room that's constantly monitoring all our real time systems.

We're now starting to think about more remote areas of the business in terms of operational technology sat in sub stations and compressor stations and making sure we've got the protection of that as well as our business systems.

We've got about 120 people who are focussed purely on cyber and we will continue to make sure that we're trying to stay ahead of the process. It's a risk like any other. You can't solve the cyber problem but we are seeing more activity, you're seeing it internationally and you're seeing it in the UK and we keep focussed on that. We're well connected as you'd expect us to be as a company like National Grid with the government services both in the UK and in the US and we get access to information that allows us to make sure that we can put the right protections in place.

. . . .

Jenny Ping, Citigroup
Firstly just on Cadent I just wondered whether there is a financial operational benefit to keep a financial stake in the Gas Distribution asset?

And then secondly on the US, obviously having seen quite a bit consolidation and acquisitions in the US and regulated utilities, there seems to be quite a lot of focus from US investors on further consolidation. I just wanted to hear your latest thoughts. Obviously you've got the organic growth piece but I'd be interested to hear the inorganic piece, thanks.

. . . .

John Pettigrew, Chief Executive
In terms of the US over the last five to six years there's been considerable consolidation in the utility sector. But from our perspective we do start from a position where our focus is very much on our core businesses, as I've said this morning our US business is growing at 7% per annum, our UK business is growing 5% per annum and we've got some great opportunities in the pipeline through National Grid Ventures as well. So we're not in a position where we're dependant on needing to do something like M&A in order to deliver the growth that we set at 5 to 7%.

However, like any organisation like National Grid you would expect us if there's an opportunity to look at it and we would look at our opportunity if it was right, but we're not dependant on it and we would only do it if it was in the interests of shareholders and in the interests of our customers. So we're in a very fortunate positon I think that with the rebalancing of the portfolio we can deliver the growth that we've set out as well as continue to support the dividend policy as we have. But you'd expect a company like National Grid to have a look if there was an opportunity but we would only do it if it was in shareholder's interests.

. . . .

Andrew Bonfield, Finance Director
And then going back to the Gas Distribution business. If you remember part of the reason why we only sold a majority stake was because we believed that would maximise value to shareholders through the process by maximising competition and we think that outcome does reflect that.

As far as the 39% remaining stake effectively that actually is still producing a very attractive return and so at this stage it fits well in the portfolio as far as actually unless you have something else to deploy the capital into. So at this stage as John said I think it just becomes a financial investment and will be evaluated against - like we will evaluate all our financial investments in our other businesses as well, just on the ongoing portfolio review.

. . . .

John Pettigrew, Chief Executive
With that I'd like to say thank you very much everybody. As I finished off in my speech I think with the rebalanced portfolio we're in good shape to deliver the 5 to 7% and continue to deliver on the dividend policy. So thank you for your questions.

. . . .

END

DISCLAIMER

This transcription has been derived from a recording of the event. Every possible effort has been made to transcribe this event accurately; however, neither World Television nor the applicable company shall be liable for any inaccuracies, errors or omissions.