

UK POWER NETWORKS GREEN BOND FRAMEWORK

DNV INDEPENDENT ASSESSMENT

Scope and Objectives

UK Power Networks (henceforth referred to as "UKPN") manages the distribution of electricity from the National Grid and locally connected generation to 8.3 million homes and businesses via its networks in London, the East of England and South East England. UKPN's licensed companies Eastern Power Networks ("EPN"), London Power Networks ("LPN") and South Eastern Power Networks ("SPN") are responsible for operating and maintaining these networks, ensuring safe, reliable and efficient electricity supplies.

UKPN recognises that they have an important role to play in safeguarding the environment which is presented in its Green Action Plan and its Science Based Target Initiative (SBTi) approved carbon targets. UKPN also has robust policies and procedures in place to ensure compliance with all relevant environmental legislation.

In order to meet their business strategy and vision and finance projects that will deliver environmental benefits UKPN has created a Green Bond Framework (the "Framework"), under which it can issue Green Bond(s). This Framework has been developed in accordance with the ICMA Green Bond Principles (GBP) 2021. In addition, UKPN intends to align to the extent feasible with the EU's classification of environmentally sustainable economic activities (the EU 'Taxonomy'). UKPN has also aligned its eligible categories with the United Nations Sustainable Development Goals (UN SDGs).

DNV Business Assurance Services UK Limited ("DNV") has been commissioned by UKPN to provide a review of the Framework. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of Bonds issued via the Framework, the value of any investments, or the long-term environmental benefits of the transaction. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

Responsibilities of the Management of UKPN and DNV

The management of UKPN has provided the information used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform UKPN's management, prospective investors and other interested stakeholders as to whether the Framework is aligned with the GBP 2021. In our work, we have relied on the information and the facts presented to us by UKPN. DNV is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by UKPN management and used as a basis for this assessment were not correct or complete.

Basis of DNV's opinion

We have adapted our eligibility assessment methodology to create a UKPN specific Green Bond Framework Eligibility Assessment Protocol (henceforth referred to as "Protocol"). Our Protocol includes a set of suitable criteria that can be used to underpin DNV's opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a bond must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond should outline the process it follows when determining eligibility of an investment using Green Bond proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a bond should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by UKPN in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a UKPN specific Protocol, adapted to the purpose of the Framework, as described above;
- Assessment of documentary evidence provided by UKPN on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Review of UKPN's published material with regards to environmental management activities relating to the company;
- Discussions with UKPN's management, and review of relevant documentation and evidence related to the criteria of the Protocol;
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

Findings and DNV's opinion

DNV findings are listed below:

1. Principle One: Use of Proceeds.

UKPN has confirmed that an amount equivalent to the net proceeds from the funds raised under the Framework will be allocated to finance or refinance new or existing eligible assets and expenditures. UKPN have confirmed they will apply a look-back period of no more than three years prior to the specific Bond issuance. UKPN has also confirmed an amount equivalent to the net proceeds raised from Bonds issued under its Framework will be allocated, in part or in full, to finance the following 'Eligible Green Projects' under the following categories:

- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Green buildings
- Climate change adaptation
- Environmentally Sustainable management of living natural resources and land use
- Clean transportation

Within its Framework, UKPN has included an extensive list of its eligibility criteria including where appropriate linked to the Technical Annex to the EU Taxonomy. UKPN has also appropriately mapped the eligible categories against the SDGs, a summary of which is provided in Schedule 1.

DNV can confirm the Framework and its associated Eligible Project categories are aligned with UKPN's broader strategy and vision and supports the development of a low carbon economy. DNV concludes that the eligible categories outlined in the Framework are in accordance with the categories outlined in the GBP will provide clear environmental benefits.

2. Principle Two: Process for Project Evaluation and Selection.

UKPN will establish a Green Financing Committee, which will be made up of representatives from its Treasury, Finance, Health, Safety and Sustainability, and Asset Management teams. The Committee will meet on a semi-annual basis with their role being:

- to review the project list and assess project eligibility for Green financing in accordance with the pre-determined Eligibility Criteria,
- to monitor that Green Bond proceeds are utilised in accordance with the uses specified in the Framework;
- to review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary (for instance, in the event that projects or expenditures have been cancelled, sold or otherwise become ineligible); and
- to oversee the collection of information required to produce periodic Green Bond Reports, in accordance with the Framework and the GBP.

UKPN has confirmed Eligible Projects will also align with its internal guidelines, policies and risk management procedures, in addition to applicable environmental standards and regulations, to ensure stringent management of any potential negative environmental impacts.

DNV concludes that the Framework appropriately describes the process of project evaluation and selection and is in line with the requirements of the GBP.

3. Principle Three: Management of Proceeds.

UKPN has confirmed the net proceeds of each Green Bond will be earmarked towards eligible projects. In the event that funds cannot be immediately and fully allocated, or in the event of any early repayment, proceeds will be held in line with UK Power Networks' general liquidity guidelines until allocation to eligible projects. To manage the proceeds of the Green Bonds, UKPN will establish a Green Bond Register which will be reviewed annually by the Green Financing Committee to account for any re-allocation, repayments or drawings on the eligible projects and expenditures within the pool. The Register will contain relevant information including:

- Details of the Bond(s): key information including transaction date, principal amount of proceeds, settlement date, maturity date, and interest margin or coupon, ISIN number etc.
- Details of Use of Proceeds, including:
 - Summary detail of eligible projects/expenditures to which the proceeds of the Bonds have been earmarked in accordance with the Framework;
 - Amount of allocation made;
 - Any unallocated Bond proceeds yet to be earmarked against eligible projects/expenditures;
 - Estimated environmental impact, where available; and
 - Other necessary information.

UKPN intends to allocate the proceeds of a given Green Bond issuance to eligible projects originated no more than three years prior to the issuance. The proceeds will be allocated within three years from the date of issuance.

DNV has reviewed evidence provided and can confirm UKPN has committed to appropriately managing the proceeds in line with the requirements of the GBP.

4. Principle Four: Reporting.

UKPN has committed to providing information annually to its stakeholders on the allocation and impact of environmental projects financed through the Framework. Reporting will be presented in an aggregated manner and will be made available publicly on its website. The information on the eligible project portfolio will include:

- The total amount of proceeds allocated to the eligible projects;
- Breakdown of allocation by project category;
- Refinancing versus new financing; and
- The balance of unallocated proceeds.

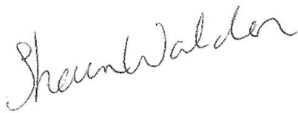
UKPN has also committed, where feasible, to report on the relevant potential impacts and metrics for eligible projects.

DNV can confirm UKPN has committed to producing appropriate reporting on the environmental impacts of its investments made under the Framework in line with the requirements of the GBP.

On the basis of the information provided by UKPN and the work undertaken, it is DNV's opinion that the Framework meets the criteria established in the Protocol and that it is aligned with the stated definition of green bonds within the ICMA Green Bond Principles 2021.

for DNV Business Assurance Services UK Limited

London, 20th July 2021

A handwritten signature in cursive script that reads "Shaun Walden".

Shaun Walden

Principal Consultant and Project Director
DNV – Business Assurance

A handwritten signature in cursive script that reads "Souvik Ghosh".

Souvik Ghosh

Principal Consultant and Reviewer
DNV – Business Assurance

About DNV

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 12,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH THE FRAMEWORK

Eligible GBP project category	Eligibility Criteria	Alignment with the UN SDGs	Potential Impact Reporting data
Renewable energy	<ul style="list-style-type: none"> • Investment in electricity distribution networks dedicated to: <ul style="list-style-type: none"> ○ connecting to renewable energy sources, such as solar, wind or small hydro ○ capacity and grid reinforcement for heat decarbonisation ○ creating a direct connection, or expanding an existing direct connection between a power production plant that is less CO₂ intensive than 100g CO₂e/kWh ○ On site renewable generation for our own operational consumption 	SDG 7 Affordable and Clean Energy	<ul style="list-style-type: none"> • Capacity and number of Low carbon Technologies connected to our networks (in MW) • Added Renewables Capacity (vs previous year) MW • Annual GHG emissions reduced/avoided in tonnes of CO₂ equivalent (tCO₂e)
Energy efficiency	<ul style="list-style-type: none"> • Investments in technologies / infrastructure that result in increased energy-efficiency by at least 30% and/or reduce electricity grid losses including <ul style="list-style-type: none"> ○ Retrofits: replacements and / or improvements to reduce energy losses ○ Smart Equipment: devices and/or infrastructure allowing for energy efficiency, reliability, resiliency, and/or exchange of Renewable electricity between users (i.e. Smart Meters) ○ Non SF6 switchgear technology 	SDG 7 Affordable and Clean Energy SDG 9 Industry, Innovation and Infrastructure	<ul style="list-style-type: none"> • Annual GHG emissions reduced/avoided (tCO₂e) • Cumulative Network loss reduction • Number of Smart grid components installed (such as smart meters)
Pollution prevention and control	<ul style="list-style-type: none"> • Investments in waste prevention, collection and recycling including but not limited to: <ul style="list-style-type: none"> ○ Removal of polychlorinated biphenyl (PCB) from the network ○ Investment in mobile generators to reduce NOx ○ Infrastructure improvements to prevent oil leaks from fluid filled cables and transformers • Circular economy initiatives adapted products, production, technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services); and/or certified eco-efficient products 	SDG 12 Responsible Consumption and Production	<ul style="list-style-type: none"> • Annual absolute (gross) amount of waste that is separated and/or collected, and treated (including composted) or disposed of (in tonnes p.a. and in % of total waste) • Leakage reductions from fluid filled cables (actual volumes)

<p>Green buildings</p>	<ul style="list-style-type: none"> Acquisition or construction of existing or new commercial buildings that have achieved or expect to achieve the below certification: BREEAM ≥ “Very Good” or LEED: ≥ “Gold” NABERS, or similar recognized standard Renovations of existing buildings that achieve energy savings of at least 30% in comparison to the baseline performance before the building renovation 	<p>SDG 11 Sustainable Cities and Communities</p>	<ul style="list-style-type: none"> Energy efficiency gains in MWh or % vs. baseline Annual GHG emissions reduced/avoided (tCO₂e) Annual energy savings (MWh pa)
<p>Climate change adaptation</p>	<ul style="list-style-type: none"> Projects aimed at enhancing the protection of distribution networks from the impacts of climate change Projects that protect the overhead lines network from extreme weather events caused by climate change 	<p>SDG 13 Climate Action</p>	<ul style="list-style-type: none"> Number of substations protected from flooding Qualitative case studies on adaptation projects
<p>Environmentally Sustainable Management of Living Natural Resources and Land Use</p>	<ul style="list-style-type: none"> Investment on projects that would reduce the impact on land and terrestrial biodiversity, such as: <ul style="list-style-type: none"> the sustainable management and value enhancement of our land Biodiversity net gain improvements terrestrial and aquatic biodiversity conservation the preservation and restoration of natural landscapes grid improvements including removing and undergrounding overhead power lines purchase of environmentally certified products 	<p>SDG 12 Responsible Consumption and Production</p> <p>SDG 15 Life on Land</p>	<ul style="list-style-type: none"> Number of biodiversity projects being undertakes Kilometres of overhead lines undergrounded in AONBs
<p>Clean Transportation</p>	<ul style="list-style-type: none"> Investments in infrastructure for clean transportation: construction, development, operation, acquisition and/or maintenance of electric grid infrastructure supporting sustainable mobility and cleaner vehicles with a lower environmental impact, including: <ul style="list-style-type: none"> Electric vehicle infrastructure including charging stations Transmission and Distribution systems and facilities supporting clean transportation, such as network extensions or capacity upgrades Renewal of fleet, including passenger cars, light commercial vehicles and large vehicles for: <ul style="list-style-type: none"> Electric vehicles or vehicles with zero tailpipe emissions Low carbon vehicles (<50g CO₂/km) 	<p>SDG 11 Sustainable Cities and Communities</p>	<ul style="list-style-type: none"> Number of electric vehicles in fleet Number of EV’s charging points supported Annual GHG emissions reduced/avoided (tCO₂e)

SCHEDULE 2: UKPN SPECIFIC GREEN BOND FRAMEWORK ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Types of Financing Framework	<p>The bond must fall in one of the following categories, as defined by the Green Bond Principles:</p> <ul style="list-style-type: none"> • Use of Proceeds Bond • Use of Proceeds Revenue Bond • Project Bond • Securitized Bond 	<p>In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed:</p> <ul style="list-style-type: none"> • UK Power Networks Green Bond Framework, July 2021 	<p>The Framework confirms Green Use of Proceeds Bonds will be issued.</p>
1b	Green Project Categories	<p>The cornerstone of a Green bond is the utilisation of the proceeds which should be appropriately described in the legal documentation for the security.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed:</p> <ul style="list-style-type: none"> • UK Power Networks Green Bond Framework, July 2021 	<p>We conclude that the Framework appropriately describes the proposed utilisation of proceeds. The specific utilisation of proceeds of each issuance will need to be further assessed on an individual basis.</p>
1c	Environmental benefits	<p>All designated Green Project categories should provide clear environmental benefits, which, where feasible, will be quantified or assessed by the issuer.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed:</p> <ul style="list-style-type: none"> • UK Power Networks Green Bond Framework, July 2021 	<p>The Framework outlines the expected environmental benefits that will be realised by any Bonds issued under the Framework. Specific quantifiable benefits of each issuance will be agreed on a case by case basis and subject to further assessment.</p>

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds	In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed: <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 	We conclude that the Framework appropriately describes the process of project selection.
2b	Issuer’s environmental and governance framework	In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer’s overall framework and performance regarding environmental sustainability.	In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed: <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 We also reviewed environmental governance documentation: <ul style="list-style-type: none"> UKPN’s Green Action 2019 Carbon Certification 2019 – 2021 Environmental Report 2019/20 	We conclude that from the information provided, the Framework is in line with UKPN’s wider approach to managing environmental sustainability.

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The net proceeds of a Bond should be credited to a sub-account, moved to the issuer’s lending and to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked investment operations for Green Projects.	In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed: <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 	DNV can confirm UKPN has made appropriate plans to track the use of proceeds in and attested to by a formal internal process.
3b	Tracking procedure	So long as the Bond are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments disbursements made during that period.	In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed: <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.
3c	Temporary holdings	Pending such investments or disbursements to eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed: <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 	We conclude that UKPN has appropriately disclosed how it will manage any unallocated proceeds within its liquidity portfolio.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	<p>In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.</p>	<p>In addition to reviewing the evidence below, we had several detailed discussions with UKPN. Evidence reviewed:</p> <ul style="list-style-type: none"> UK Power Networks Green Bond Framework, July 2021 	<p>We confirm UKPN has committed to annual green reporting which will be made available as either a stand-alone report or Annual Report or Sustainability Report which will provide investors with information on the selected projects and include quantification of the environmental benefits of the selected projects. In order to make the benefits quantifiable, UKPN has provided detailed examples of potential KPIs.</p>