UK Power Networks

Investor Update

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www.ukpowernetworks.co.uk
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1. Executive summary
## Executive summary

| Management solely focused on networks | • Management team now embedded  
| • Sole focus on the UK electricity distribution networks |
| New strategy is delivering results | • Management has implemented a clear plan to drive efficiency across UKPN over the short, medium and long term – 2011 results are encouraging:  
  – Sustainably cost-efficient – indirect costs down 19% in 2011  
  – A respected corporate citizen – customer minutes lost down 42% in 2011  
  – An employer of choice – lost time incidents down 46% in 2011 |
| Conservative Financing Strategy, reflecting shareholder aims implemented | • Established UKPN bond programme  
| • Single level of debt, all pari passu on a senior unsecured basis |
| Strong Financial Metrics | • Opco gearing levels at 65-69% Debt:RAV and ratings of BBB+/Baa1/A- for London Power Networks plc (LPN), and BBB+/Baa1/BBB+ for South Eastern Power Networks plc (SPN) and Eastern Power Networks plc (EPN)  
| • Shareholders aim to keep combined Debt:RAV below 72% |
2. Performance update
UK Power Networks vision – to be

1. An Employer of Choice
2. A Respected Corporate Citizen
3. Sustainably Cost Efficient

And achieve upper third performance by 2013/14
Management team complete

Chief Executive Officer (CEO) Networks
Basil Scarsella
30 years in utilities

Management team focused on operational excellence

- Three external appointments
- Three internal promotions
- Three significant changes in responsibilities
- Two remain unchanged
Achievements in 2011 – review of projects

<table>
<thead>
<tr>
<th>Project Title</th>
<th>2011 Key Achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Cost Efficiency (ICE)</td>
<td>Voluntary severance programme implemented with 585 staff leaving</td>
</tr>
<tr>
<td>Achieving Commercial Excellence (ACE)</td>
<td>Reduction of £13m in indirect costs</td>
</tr>
<tr>
<td>Improving Customer Satisfaction</td>
<td>76% reduction in customer complaints (compared to 2010) and continual improvement in Ofgem ranking</td>
</tr>
<tr>
<td>Zero Harm</td>
<td>46% reduction in LTIs compared to 2010</td>
</tr>
<tr>
<td>Stakeholder Engagement</td>
<td>Four separate stakeholder events run consulting on our future business plans</td>
</tr>
<tr>
<td>Aligning Employee and Shareholder Interests</td>
<td>New company incentive scheme implemented</td>
</tr>
<tr>
<td>Quality of supply</td>
<td>23%-40% improvement in CMLs compared to 2010/11 (Dependent on licencee)</td>
</tr>
<tr>
<td>Separation from EDF Energy</td>
<td>All TSAs replaced in line with plan</td>
</tr>
<tr>
<td>Improving Connections processes including Competition Test preparation</td>
<td>Better than 99% compliance achieved on Ofgem Guaranteed Standards</td>
</tr>
<tr>
<td>Business Planning</td>
<td>Improved business planning process introduced</td>
</tr>
<tr>
<td>Asset Management</td>
<td>New asset replacement models produced plus an industry leading load forecasting tool has been developed with Imperial College London</td>
</tr>
<tr>
<td>Closure of defined benefit pension fund</td>
<td>Remove pension risk resulting from new employees joining the defined benefit scheme</td>
</tr>
</tbody>
</table>
Achievements in 2011 – Employer of choice

• Significant improvement in Lost Time Incidents compared to 2010 actuals and 2011 Budget
• New performance management framework and associated incentive scheme launched
• Investors in People award
• Implemented a revised staff engagement and communications approach including:
  – increasing staff interaction with the Executive team e.g. Executive Dial-ins; and
  – quarterly Executive and Senior Management team offsites

Lost Time Incidents

<table>
<thead>
<tr>
<th></th>
<th>2010 Actual</th>
<th>2011 Budget</th>
<th>2011 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incidents</td>
<td>41</td>
<td>35</td>
<td>22</td>
</tr>
</tbody>
</table>

Quote from Investors in People report

“The organisation has delivered an impressive level of communication and engagement, which has led to employees’ exceptionally strong understanding of UKPN’s values and vision”
Achievements in 2011 – Customer Service

2011/12 IIS outperformance of £42m (2nd highest in sector) compared with £3m in 2010/11 and -£10m in 2009/10
Achievements in 2011 – Sustainable cost efficiency

- 2011 Budget set challenging cost targets for all areas of the business
- We have outperformed the 2011 Budget and are on target to bring our cost base in line with the Ofgem allowances
- 2012 and 2013 are key in reducing our costs to the levels required for upper third performance

Note: one off costs relating to change programmes and restructuring have been excluded from 2011 costs
## 2011 Group financial performance – budget to actual

<table>
<thead>
<tr>
<th>£m nominal</th>
<th>UKPN holdings</th>
<th>EPN</th>
<th>LPN</th>
<th>SPN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1334</td>
<td>1355</td>
<td>486</td>
<td>465</td>
</tr>
<tr>
<td>EBITDA</td>
<td>766</td>
<td>790</td>
<td>258</td>
<td>279</td>
</tr>
<tr>
<td>EBIT</td>
<td>508</td>
<td>620</td>
<td>187</td>
<td>213</td>
</tr>
<tr>
<td>Net income</td>
<td>158</td>
<td>312</td>
<td>97</td>
<td>86</td>
</tr>
<tr>
<td>Regulated capital expenditure</td>
<td>620</td>
<td>568</td>
<td>236</td>
<td>251</td>
</tr>
<tr>
<td>Net Debt</td>
<td>3313</td>
<td>3239</td>
<td>1381</td>
<td>1384</td>
</tr>
</tbody>
</table>

2011 performance was significantly ahead of budget
London 2012 Olympic & Paralympic Games

Summary Outcome

- Provider of electricity network infrastructure to the London Games
  - £121m project delivered on time and on budget
- Contingency planning proved effective in maintaining security of supply and customer service.
- No significant network issues experienced during the Olympic Games period.

The ultimate test of our “major event” capability
3. Strategy update
Overview of our business transformation timeline

- **Separation and Accountability**
  - Clear direction
  - Clear targets
  - Single point accountability
  - Align interests of employees and shareholders
  - Break down internal barriers
  - Re-establish Ofgem relationship
  - Employee engagement
  - Appoint management team
  - Identify risks
  - Deliver the 2011 commitments

- **Reset business performance**
  - Data quality
  - Improved governance
  - Plan for regulatory brand
  - Develop “to be” systems
  - Right size
  - Focus on cultural change
  - Improve operational performance
  - Refocus asset planning
  - Cut costs
  - IT Separation from EDF Energy
  - Olympic Games

- **Business transformation**
  - Implement state of the art systems and processes
  - Achieve acceptable RIIO-ED1 outcome
  - Normal business operations
RIIO – ED1 timeline and activities

Key milestones:
- Submission of initial RIIO-ED1 forecasts in July 2012
- Submission of the initial RIIO-ED1 business plan in July 2012
- Publication of the RIIO-ED1 strategy consultation (incentives & outputs) in September 2012
- Publication of the strategy decision in February 2013
- Submission of DNO business plans in June 2013
- Publication of fast track recommendation consultation in November / December 2013
- Publication of fast track decision in early February 2014
- Publication of the final proposals in November 2014
- Implementation of the RIIO-ED1 review from 1 April 2015
4. Capital structure and treasury
The shareholders intend to maintain a conservative dividend policy, with the aim of maintaining a strong investment grade credit rating for the three DNOs by keeping combined net debt / RAV below 72%.

<table>
<thead>
<tr>
<th>£m nominal</th>
<th>EPN</th>
<th>LPN</th>
<th>SPN</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>30 June 2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Debt</td>
<td>1,386</td>
<td>943</td>
<td>902</td>
<td>3,231</td>
</tr>
<tr>
<td>RAV</td>
<td>2,100</td>
<td>1,378</td>
<td>1,331</td>
<td>4,809</td>
</tr>
<tr>
<td><strong>Net Debt / RAV ratio</strong></td>
<td><strong>66.0%</strong></td>
<td><strong>68.4%</strong></td>
<td><strong>67.8%</strong></td>
<td><strong>67.2%</strong></td>
</tr>
</tbody>
</table>
**UKPN Credit Lines at 30 June 2012**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Facility</th>
<th>Drawn Amount £'m</th>
<th>Undrawn Amount £'m</th>
<th>Total £'m</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPN</td>
<td>RCF</td>
<td>-</td>
<td>210</td>
<td>210</td>
<td>Feb-17</td>
</tr>
<tr>
<td>LPN</td>
<td>RCF</td>
<td>-</td>
<td>145</td>
<td>145</td>
<td>Feb-17</td>
</tr>
<tr>
<td>SPN</td>
<td>RCF</td>
<td>-</td>
<td>145</td>
<td>145</td>
<td>Feb-17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>-</td>
<td><strong>500</strong></td>
<td><strong>500</strong></td>
<td></td>
</tr>
</tbody>
</table>
## UKPN’s debt maturity profile

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Coupon</th>
<th>Maturity</th>
<th>Rating (S&amp;P/Moody’s/Fitch)</th>
<th>Size</th>
<th>Issue date</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>UKPNS</td>
<td>5.0%</td>
<td>14 Dec 21</td>
<td>BBB (S&amp;P)</td>
<td>USD 315m</td>
<td>14 Dec 11</td>
<td>UST 2.00% due 2021</td>
</tr>
<tr>
<td>EPN</td>
<td>4.75%</td>
<td>30 Sep 21</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP 400m</td>
<td>Sep 11 tapped Mar 12</td>
<td>UKT 3.75% Jul 21</td>
</tr>
<tr>
<td>EPN</td>
<td>5.75%</td>
<td>8 Mar 24</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP350m</td>
<td>Mar 04</td>
<td>UKT 5% Mar 25</td>
</tr>
<tr>
<td>EPN</td>
<td>8.5%</td>
<td>31 Mar 25</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP200m</td>
<td>Jul 95</td>
<td>UKT 5% Mar 25</td>
</tr>
<tr>
<td>EPN *</td>
<td>6%</td>
<td>Nov 36</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP350m</td>
<td>Nov 09</td>
<td>UKT 4% Mar 36</td>
</tr>
<tr>
<td>LPN *</td>
<td>5.125%</td>
<td>Nov 16</td>
<td>BBB+/Baa1/A-</td>
<td>GBP300m</td>
<td>Nov 09</td>
<td>UKT 4% Sep 16</td>
</tr>
<tr>
<td>LPN</td>
<td>6.125%</td>
<td>7 Jun 27</td>
<td>BBB+/Baa1/A-</td>
<td>GBP300m</td>
<td>Jun 02</td>
<td>UKT 6% Dec 28</td>
</tr>
<tr>
<td>LPN</td>
<td>5.125%</td>
<td>Mar 23</td>
<td>BBB+/Baa1/A-</td>
<td>GBP250m</td>
<td>Jun 11</td>
<td>UKT 4% Mar 22</td>
</tr>
<tr>
<td>LPN **</td>
<td>3.125%</td>
<td>7 Jun 32</td>
<td>BBB+/Baa1/A-</td>
<td>GBP150m</td>
<td>Jun 02</td>
<td>UKTI 4.125% Jul 30</td>
</tr>
<tr>
<td>SPN **</td>
<td>3.053%</td>
<td>5 Jun 23</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP 50m</td>
<td>Jun 03</td>
<td>UKTI 2.5% Jul 25</td>
</tr>
<tr>
<td>SPN</td>
<td>5.5%</td>
<td>5 Jun 26</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP300m</td>
<td>Jun 03</td>
<td>UKT 5% Mar 25</td>
</tr>
<tr>
<td>SPN</td>
<td>5.625%</td>
<td>Sep 30</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP200m</td>
<td>Jun 11</td>
<td>UKT 4.75% Dec 30</td>
</tr>
<tr>
<td>SPN *</td>
<td>6.125%</td>
<td>Nov 31</td>
<td>BBB+/Baa1/BBB+</td>
<td>GBP300m</td>
<td>Nov 09</td>
<td>UKT 4% Mar 32</td>
</tr>
</tbody>
</table>

* contained flipper and rating step up language which has now expired
** index linked
5. Conclusion
Summary

- Long term committed shareholders with established track record of efficiently operating power and utility companies
- Focused vision and a clearly defined strategic framework for UKPN
- Management team and business plans aligned to this vision and framework
- Strong results delivered in 2011 and expected in 2012
- Commitment to current ratings across the Group

We aim to achieve upper third performance by 2013/14
Appendix
UKPN vs other DNOs

Regulated Asset Value\(^{(1)}\)

<table>
<thead>
<tr>
<th>Entity</th>
<th>RAV(^{(1)})</th>
<th>Rating</th>
<th>End Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Power Networks</td>
<td>£1,337m</td>
<td>BBB+ / Baa1 / A-</td>
<td>2.3m</td>
</tr>
<tr>
<td>Eastern Power Networks</td>
<td>£1,969m</td>
<td>BBB+ / Baa1 / BBB+</td>
<td>3.4m</td>
</tr>
<tr>
<td>South Eastern Power Networks</td>
<td>£1,224m</td>
<td>BBB+ / Baa1 / BBB+</td>
<td>2.2m</td>
</tr>
<tr>
<td>Group Total</td>
<td>£4,530m</td>
<td></td>
<td>7.9m</td>
</tr>
</tbody>
</table>

Geographic Coverage

(1) Figures as per Office for Gas and Electric Markets (Ofgem) final proposals, adjusted for inflation, year-end 31 March 2011.
Shareholding structure

CKI
- Cheung Kong Infrastructure Holdings Limited
- The largest publicly listed infrastructure company in Hong Kong
- Diversified investments in energy, transportation, water and other infrastructure-related businesses
- Leading player in the global infrastructure arena with operations in Hong Kong, Mainland China, Australia, the UK, Canada, New Zealand and the Philippines
- As of 31 December 2011, market capitalisation of £8.8 billion
- Rated A- (stable)

PAH
- Power Asset Holdings Limited
- 40% equity
- PAH is a publicly listed energy utility in Hong Kong
- Developed a global portfolio of energy assets through its international subsidiary and partnerships with CKI
- As of 31 December 2011, market capitalisation of £10.2 billion
- Rated A+ (stable)

PAH (formally HEH)
- 38.9% owned by CKI
- Rated A- (stable)

LKSF
- Li Ka Shing Foundation
- 20% equity
- Rated A- (stable)

LKSF
- A charitable organisation founded by the Hong Kong entrepreneur and philanthropist Li Ka Shing
- Mr Li is Chairman of Hutchison Whampoa and Cheung Kong (Holdings) Limited
- Established in 1980 to support numerous charitable activities with grants, sponsorships and commitments totalling HK$12.8 billion globally

The Consortium members have established a long track record of operating jointly-held power and utilities companies:
- Hongkong Electric (1985)
- Citipower, Powercor and ETSA Utilities in Australia (2000-02)
- Northern Gas Networks in the United Kingdom (2005)
- TransAlta Cogeneration L.P. in Canada (2007)
- Wellington electricity distribution network in New Zealand (2008)
- Northumbrian Water Group in the UK (2011)
- Generation assets in mainland China, Canada, Thailand and UK (Seabank)

Source: Company data, FactSet;
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