

UK Power Networks

Investor Presentation

June 2011



李嘉誠基金會
LI KA SHING FOUNDATION



Table of Contents

- 1. Executive Summary**
- 2. Business Description & Ownership Structure**
- 3. Strategy, Business Plan & Management Structure**
- 4. Treasury Strategy**
- 5. Regulatory Environment**
- 6. Conclusion**

Appendix

1. Executive Summary



Executive Summary

Acquisition successfully completed

- UK Power Networks “UKPN” is owned by a consortium of Cheung Kong Group companies which acquired it from its former owner EDF in October 2010

Shareholder group brings Global Industry Expertise to the UKPN group

- UKPN management is now solely focussed on the DNO business and brings operational expertise from the shareholder group

UKPN brings new Shareholder vision to bear on the business

- Management is implementing a clear plan to drive efficiency across UKPN over the short, medium and long term – focused on being:
 - Cost-efficient;
 - A respected corporate citizen;
 - An employer of choice.

Conservative Financing Strategy, reflecting shareholder aims implemented

- New UKPN bond programme established
- Single level of debt, all pari passu on a senior unsecured basis

Strong Financial Metrics

- Opco gearing levels at 66-68% Debt:RAV and ratings of BBB+/Baa1/A- for LPN, and BBB+/Baa1/BBB+ for SPN and EPN

Significant progress made in the first 5 months

- Jan to Mar 2011 total costs £36.3m below regulated allowances and £27.9m below same period last year
- Average customer minutes lost 95.5% of Ofgem target for 10/11 and 36.9% better than last year
- Customer interruptions improved in 10/11 compared to 09/10

2. Business Description & Ownership Structure



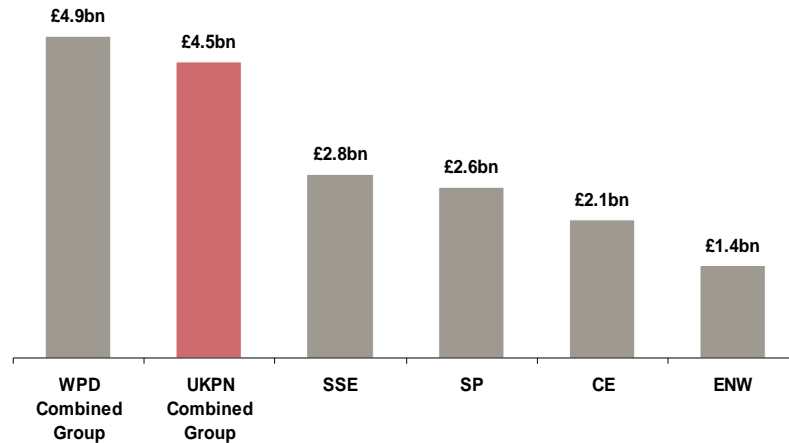
Business Overview

- Three licensed distribution networks: London, East of England and South-East of England
- 89 TWh of electricity distributed to 7.9 million homes and businesses per annum.
- 43,493 kilometres of overhead lines, 123,787 kilometres of underground cables
- 74% of the network is comprised of underground cables

Entity	End Customers	Service Area	Network
London Power Networks	2.3m	665 sq km	30,160km
Eastern Power Networks	3.4m	20,300 sq km	92,120km
South Eastern Power Networks	2.2m	8,200 sq km	45,000km
Total	7.9m	29,165 sq km	167,280km

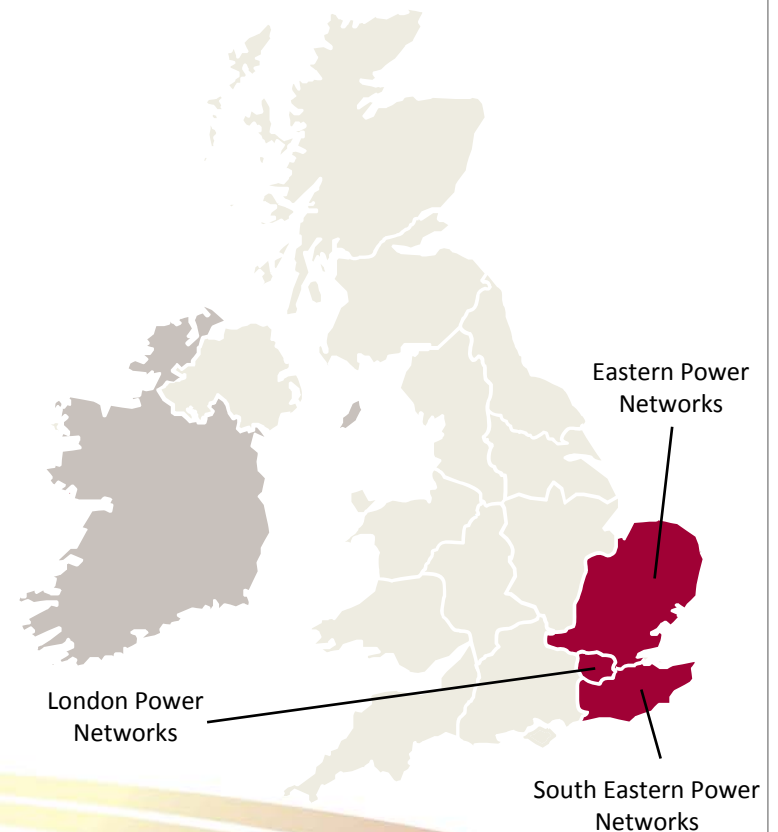
UKPN vs Other DNOs

Regulated Asset Value⁽¹⁾



Entity	RAV ⁽¹⁾	Rating
London Power Networks	£1,337m	BBB+ / Baa1 / A-
Eastern Power Networks	£1,969m	BBB+ / Baa1 / BBB+
South Eastern Power Networks	£1,224m	BBB+ / Baa1 / BBB+
Group Total	£4,530m	

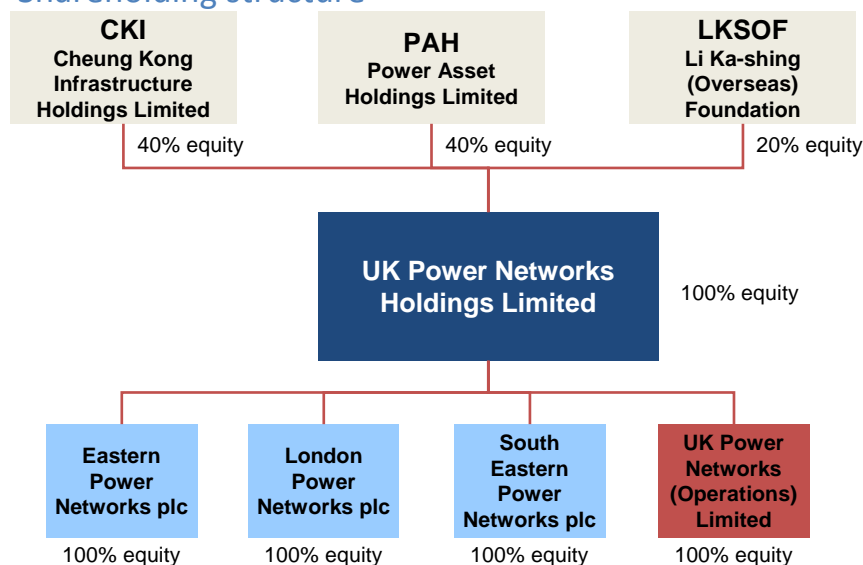
Geographic Coverage



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

Ownership Structure

Shareholding structure



CKI

- 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 2010, market capitalisation of £6.6 billion
- Rated A- (stable)

PAH (formally HEH)

- 38.9% owned by CKI
- 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 2010, market capitalisation of £8.7 billion
- Rated A+ (stable)

LKSOF

- 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\$11 billion (c. £930 million) globally

The Consortium members have established a long track record of operating jointly-held power and utilities companies:

- Hongkong Electric vertically integrated utility serving Hong Kong and Lamma Island (1890)
- Wellington electricity distribution network in New Zealand (2008)
- TransAlta Cogeneration L.P. in Canada (2007)
- Northern Gas Networks in the United Kingdom (2005)
- Citipower, Powercor and ETSA Utilities in Australia (2000-02)
- Generation assets in mainland China, Canada, Thailand and UK (Seabank).

Source: Company data, FactSet;

3. Strategy, Business Plan & Management Structure



Accepting Reality – DPCR4 Delivery of the Regulatory Contract

- Value for money for customers and shareholders was poor

DPCR4 TOTEX (07/08)

DNO (Rank)	Actual Totex	Totex % of allowance
EPN (14)	£1377.7m	+7.2%
LPN (8)	£804.2m	-1.3%
SPN (11)	£877.3m	+1.4%
Best DNO	£772.6m (ENW)	-13.8%
Ave DNO	£785.2m	-1.7%

DPCR4 RORE (Real)

DNO	Core Business	Including Incentives
EPN	4.85% (14)	+8.66% (7)
LPN	6.37% (8)	+ 8.95% (4)
SPN	5.14% (13)	+7.44% (11)
Best DNO	8.45% (ENW)	+10.1% (ENW)
Ave DNO	6.77%	8.31%

The losses incentive enabled a reasonable return on equity but this will not be the case in DPCR5

Our New Vision – Response to Ofgem’s Messages

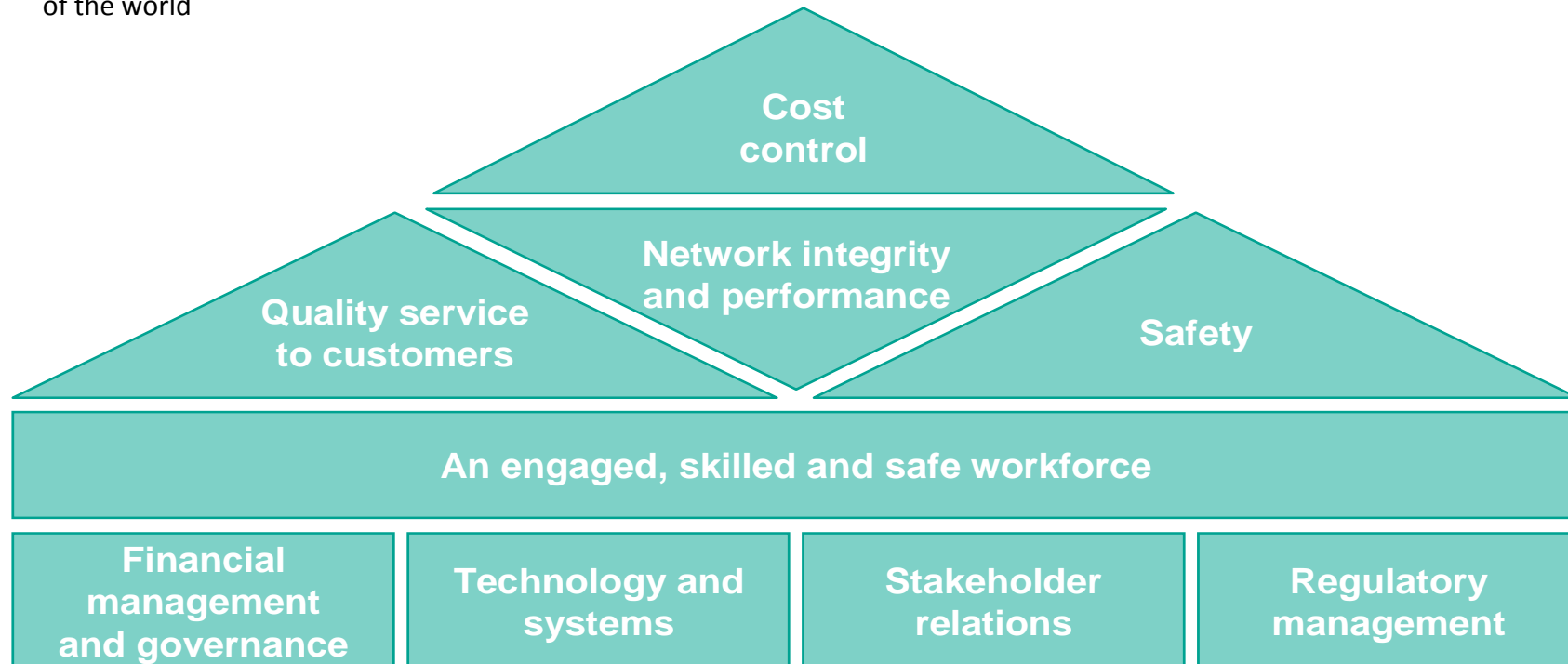
- We welcome Ofgem’s RIIO regulatory framework
 - it focuses on outputs for customers with less financial engineering
- Focus on the regulatory contract
 - Align internal targets to regulatory performance
 - Innovation to meet the low carbon challenge
 - Strategy of growth in RAV replaced by delivery of outputs at efficient cost
 - Align contractor targets directly to regulatory performance
- Review of customer requirements
 - DPCR4 Return on Equity not sustainable for UKPN under RIIO without efficiency improvements
 - Establish Stakeholder requirements by revised engagement

We must improve our efficiency, our customer service and our safety performance

UKPN Strategic Framework

Philosophy of the Consortium members

- The Consortium members are long-term equity investors in utility networks
- Proven track record of successfully owning and operating regulated networks under various regulatory regimes in different parts of the world



- *Acceptable financial returns*
- *Employer of choice*
- *Respected corporate citizen*

UKPN Vision

- To become an organisation which is achieving upper 3rd performance by the start of 2013/14 through being:

1

Cost Efficient

2

A Respected Corporate Citizen

3

An Employer of Choice

New Management Structure

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

Regulated Networks

Non-regulated Networks

Barry Hatton <i>Director of Asset Management</i> <i>30 years in industry</i>	Patrick Clarke <i>Director of Network Operations</i> <i>33 years in industry</i>	Chris Matthews (Interim) <i>Director of Capital Programme</i> <i>25 years in Supply Chain</i>	Mark Adolphus <i>Director of Connections</i> <i>19 years in industry</i>	Matt Rudling (Interim) <i>Director of Customer Services</i> <i>25 years in industry</i>	Murdo Allan <i>Director of Health, Safety and Sustainability</i> <i>30 years in industry</i>	Chris Degg <i>Director of HR</i> <i>25 years in HR</i>	Richard Roberts <i>Director of Finance</i> <i>19 years in industry</i>	Ben Wilson <i>Director of Strategy & Regulation & CFO</i> <i>15 years in utilities</i>	Andrew Bilecki <i>Chief Information Officer</i> <i>15 years in utilities</i>	Stewart Dawson <i>Director of Infrastructure Services</i> <i>30 years in industry</i>
---	---	--	---	--	---	---	---	---	---	--

- The above management structure came into effect on 6th April 2011
- More direct reports than usual
- Four external appointments
- Two internal promotions
- Three significant changes in responsibilities
- Two remain unchanged

Achieving the right balance

Operational changes being implemented

- At DPRC5, the Regulator informed us that we were off the pace on efficiency & customer service and we have instigated the following key projects to address this:

Achieving Commercial Excellence (ACE)	<ul style="list-style-type: none"> Delivering improvement in end to end procurement processes with major contractors & suppliers
Indirect Cost Efficiency (ICE)	<ul style="list-style-type: none"> Review of all areas of indirect costs including management hierarchy, back office and support functions.
Improving Customer Satisfaction	<ul style="list-style-type: none"> Delivering a truly customer focussed business Improve the capacity and calibre of customer-facing teams e.g. call centre, new connections, service alterations Streamline the new connections process Focus on areas playing into Ofgem's 'Broad Measure of Customer Satisfaction' Reduce number and value of GSOS compensation payments
Quality of supply	<ul style="list-style-type: none"> Delivering operational improvements to minimise CML's including faster response and restoration times Delivering focussed investment in maintaining and replacing access to reduce CI's
Field Staff Productivity	<ul style="list-style-type: none"> Track all field staff using vehicle tracker infrastructure Review restrictive safety processes that slow the progress of work Implement tighter control of overtime working and review flexible working arrangements Introduce a realistic pay / productivity scheme to incentivise operational productivity improvements
Asset Management	<ul style="list-style-type: none"> Review high maintenance assets and carry out replacement versus maintenance analysis Undertake a detailed review of capital jobs to identify further opportunities for removing or deferring projects Review the use of sample inspections versus total population inspections approach for some asset groups Increase the use of non-invasive condition assessment techniques Improve asset replacement modelling capabilities

Good Progress after 5 Months

- Key metrics show a significant improvement on 2009/10
- Has our relative performance on CIs/CMLs changed compared to the industry?

Telephony Performance through customer survey

DNO (Rank)	10/11 Score	Difference to Best DNO
EPN (10)	4.30	0.34
LPN (14)	4.15	0.49
SPN (12)	4.24	0.40
Best DNO	4.64	WPD S Wales
Ave DNO	4.37	0.27

Customer Interruptions per 100 customers

DNO (Rank)	10/11 % of Ofgem target	Difference to 09/10
EPN	114.3%	+10.4%(*)
LPN	77.4%	-1.1%
SPN	92.1%	-5.2%
Ave UKPN	98.4%	+1.8%

Average Customer Minutes Lost

DNO (Rank)	10/11 % of Ofgem target	Difference to 09/10
EPN	102.7%	-27.3%
LPN	107.3%	-11.5%
SPN	84.0%	-58.9%
Ave UKPN	95.5%	-36.9%

(*) Methodology used by Ofgem to set the target gave EPN an improving track that is steeper than what was achieved in the first 12 months. We have a number of initiatives to address this.

Initial focus on daily operational performance

Regulated Activity – Total Costs

- 18.7% ahead of allowances in last quarter of 2010/11 – a significantly improved position from DPCR4

	Apr - Dec				Jan - Mar			
	2009/10 £'m	2010/11 £'m	Allowed £'m	Var %	2009/10 £'m	2010/11 £'m	Allowed £'m	Var %
Opex	105	125	108	-15.6%	32	36	36	-0.6%
Capex	283	243	283	14.2%	97	65	94	31.3%
Indirect costs	178	200	168	-19.4%	51	54	56	2.5%
Non op capex	29	17	22	25.9%	5	1	7	81.1%
TMA	1	2	2	-26.3%	1	1	1	-57.1%
Total	595	586	582	-0.7%	186	158	194	18.7%

- Expenditure reduced by £36.5 million in the year and £32.4 million below regulated allowances
- Tight focus on cost control has resulted in the quarter from January to March 2011 of expenditure being £27.9 million below last year and £36.3 million below regulated allowances
- Opex is now in line with regulatory allowances
- Capex underspend contributed to by more efficient delivery and reduced requirement to reinforce the networks as growth has slowed

4. Treasury Strategy



Target Gearing

- UKPN is committed to maintaining a strong investment grade rating, and maintaining a gearing level commensurate with that aim:

£m nominal	EPN	LPN	SPN	Total
31 December 2010				
Net Debt	1,279	940	852	3,071
RAV	1,903	1,300	1,186	4,389
Net Debt / RAV ratio	67.2%	72.3%	71.8%	70.0%

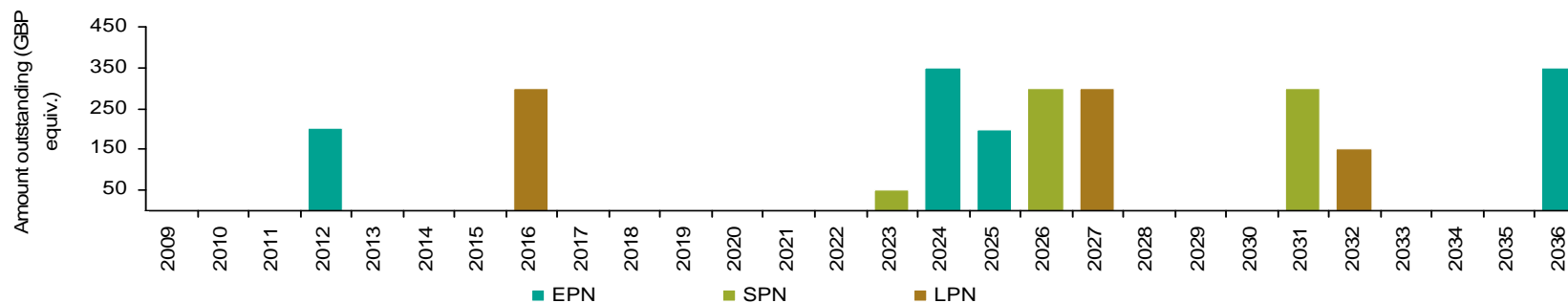
Group sources of liquidity

UKPN Credit Lines at 31st March 2011

Entity	Facility	Drawn Amount £'m	Undrawn Amount £'m	Total £'m	Maturity
EPN	Syndicated Term Loan	145	-	145	Jul-13
LPN	Syndicated Term Loan	196	-	196	Jul-13
SPN	Syndicated Term Loan	134	-	134	Jul-13
		<u>475</u>	<u>-</u>	<u>475</u>	
EPN	RCF	50	162	212	Jul-15
LPN	RCF	-	155	155	Jul-15
SPN	RCF	65	68	133	Jul-15
		<u>115</u>	<u>385</u>	<u>500</u>	
Total		<u>590</u>	<u>385</u>	<u>975</u>	

Debt Maturity profile on UKPN's existing bonds

Current bond maturity profiles



Issuer	Coupon	Maturity	Rating (S&P/Moody's/Fitch)	Size	Issue date	Benchmark
EPN	8.75%	Mar 12	BBB+/Baa1/BBB+	GBP200m	Apr 97	UKT 5% Mar 12
EPN	5.75%	Mar 24	BBB+/Baa1/BBB+	GBP350m	Mar 04	UKT 5% Mar 25
EPN	8.5%	Mar 25	BBB+/Baa1/BBB+	GBP200m	Jul 95	UKT 5% Mar 25
EPN *	6%	Nov 36	BBB+/Baa1/BBB+	GBP350m	Nov 09	UKT 4% Mar 36
LPN *	5.125%	Nov 16	BBB+/Baa1/A-	GBP300m	Nov 09	UKT 4% Sep 16
LPN	6.125%	Jun 27	BBB+/Baa1/A-	GBP300m	Jun 02	UKT 6% Dec 28
LPN **	3.125%	Jun 32	BBB+/Baa1/A-	GBP150m	Jun 02	UKTI 4.125% Jul 30
SPN **	3.053%	Jun 23	BBB+/Baa1/BBB+	GBP 50m	Jun 03	UKTI 2.5% Jul 25
SPN	5.5%	Jun 26	BBB+/Baa1/BBB+	GBP300m	Jun 03	UKT 5% Mar 25
SPN *	6.125%	Nov 31	BBB+/Baa1/BBB+	GBP300m	Nov 09	UKT 4% Mar 32

* contain flipper and rating step up language

** index linked

Dividend Policy

- The consortium intends 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%.

Pensions position and agreement with Trustees

The actuarial valuation of the pension scheme as at 31st March 2010 revealed a funding shortfall of £620m

- **An agreement was reached between UKPN and the pension trustees before transfer to eliminate the funding shortfall by way of additional contributions to the scheme from UKPN:**
 - Upfront contribution of £150m made in October 2010 (paid by EDF Energy)
 - 52% of the deficit to be repaired to 31st March 2016 (including the £150m upfront contribution)
 - 33% of the deficit to be repaired between 1st April 2016 and 31st March 2021
 - 14% of the deficit to be repaired between 1st April 2021 and 31st March 2026
- **Ofgem has allowed full recovery of the deficit attributable to the regulated business over 15 years with an NPV true up to compensate DNOs for the time value of money of any accelerated deficit repair**

Undertaking to the pension scheme trustees not to increase gearing of the DNO's above 75% net debt:RAV

Proposed Investor Reporting

- Regular interaction with investor and bank credit analysts covering UKPN
- One-on-one meetings with long term investors every year
- Company website to incorporate relevant information for fixed income investors
- Accounts published on website

5. Regulatory Environment



Regulatory Consultations

- RIIO consultation
 - Primary issue was asset lives
 - Resolution
 - existing assets still depreciated over 20 years
 - new assets over 45 years
 - Cliff edge avoided
 - Impact of new asset depreciation can be resolved within price control settlement
 - Independent Directors

6. Conclusion



Summary

- Long term ownership with established long track record of efficiently operating power and utility companies
- Powerful business vision and a clearly defined strategic framework for UKPN
- Management team and business plans aligned to this vision and framework
- Operational changes being mobilised to deliver against business plans and regulatory contract
- Encouraging results in the first 5 months

We aim to achieve upper third performance by 2013/14

Potential Bond Transaction

Issuer	LPN / EPN / SPN
Amount	£Benchmark per issuer
Expected Rating	BBB+ / Baa1 / BBB+ (LPN is rated A- by Fitch)
Maturity	LPN - Intermediate SPN - Intermediate to long EPN - Intermediate
Use of Proceeds	Repaying existing bank debt, no increase in leverage

Appendix



Management Biographies

Basil Scarsella
Chief Executive

Basil has been with the Cheung Kong Group for 11 years. Prior to taking up the appointment at UK Power Networks, he was the CEO of Northern Gas Networks from 2005, also owned by the Cheung Kong Group, distributing gas to 2.5 million homes in the north east of England and benchmarked the most efficient natural gas distributor in the UK. From 1998, Basil was the CEO of ETSA Utilities, a privatised electricity distribution business in Australia. Between 1994 and 1998 he was General Manager of ETSA Power Corporation, responsible for electricity distribution, retailing, field services and customer services, which was benchmarked as the most efficient. Before joining ETSA Corporation in 1994 he was Group Planning and Finance Manager at the South Australia Gas Company (SAGASCO). Basil holds a degree in Economics from the University of Adelaide and is a Certified Practising Accountant. He is a Life Member of Football Australia and former Member of the Executive Committee of FIFA. He received the Australian Sports Medal in 2000, and in 2003 became a Member of the Order of Australia, for services to sport.

Richard Roberts
Finance Director

Richard Roberts is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) having qualified in 1988. Richard joined SEEBOARD plc in 1992 following privatisation of the electricity sector from KPMG where he was a manager. Richard held a number of senior positions with SEEBOARD dealing with both the regulated and unregulated activities within the group before being appointed as Finance Director to the regulated networks business at the beginning of 2000. Following its purchase by EDF Energy in 2002 Richard was appointed Finance Director of the three regulated networks businesses owned by EDF Energy. In 2007 the regulated networks business was combined with EDF Energy's unregulated infrastructure businesses to create the organisation which was sold to the CKI consortium in October 2010 and is now UK Power Networks.

Ben Wilson
**Director of Strategy and Regulation
and Chief Financial Officer**

Ben recently joined UK Power Networks from Deutsche Bank where he was a Managing Director in the European utilities team, responsible for the UK and Nordic regions. Ben has 15 years utilities investment banking experience, acting for clients in Europe, Asia and Latin America. Ben has extensive experience in the UK regulated utility sector, across corporate finance, mergers and acquisitions, debt capital markets and equity capital markets. Ben has an MA in Natural Sciences from Cambridge University.

Mike Hirst
Head of Treasury

Mike joined UK Power Networks as the Head of Treasury in February 2011. He was previously Vice President of Treasury, Taxation and Risk at Lonmin plc for 2.5 years. He spent 10 years with Tesco plc in a number of roles including Deputy Group Treasurer. Mike is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and holds a Diploma in Corporate Treasury (MCT). He has an MA in Electrical and Information Sciences from Cambridge University.

Disclaimer

This presentation and its contents are confidential and this information should not be disclosed in whole or in part.

This presentation includes forward looking statements that represent opinion, estimates and projections which may not be realised. We consider that the information provided herein is reliable as of the date hereof but do not warrant its accuracy or completeness. In preparing these materials we have relied upon and assumed without independent verification the accuracy and completeness of information obtained from a variety of sources.