

# UK Power Networks

## Investor Presentation

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李嘉誠基金會  
LI KA SHING FOUNDATION



# Table of contents

- 1. Executive Summary**
- 2. Strategy, Business Plan and Management Structure**
- 3. Treasury Strategy**
- 4. Conclusion**

**Appendix**

# ***1. Executive Summary***

# Executive summary

<b>Acquisition successfully completed</b>	<ul style="list-style-type: none"><li>• 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</li></ul>
<b>Management solely focused on networks</b>	<ul style="list-style-type: none"><li>• New management team in place</li><li>• Sole focus on the UK electricity distribution networks</li></ul>
<b>UKPN brings new Shareholder vision to bear on the business</b>	<ul style="list-style-type: none"><li>• Management is implementing a clear plan to drive efficiency across UKPN over the short, medium and long term – focused on being:<ul style="list-style-type: none"><li>– Sustainably cost-efficient;</li><li>– A respected corporate citizen;</li><li>– An employer of choice.</li></ul></li></ul>
<b>Conservative Financing Strategy, reflecting shareholder aims implemented</b>	<ul style="list-style-type: none"><li>• New UKPN bond programme established</li><li>• Single level of debt, all pari passu on a senior unsecured basis</li></ul>
<b>Strong Financial Metrics</b>	<ul style="list-style-type: none"><li>• Opco gearing levels at 65-69% Debt:RAV and ratings of BBB+/Baa1/A- for LPN, and BBB+/Baa1/BBB+ for SPN and EPN</li><li>• Aim to keep Debt:RAV below 72%</li></ul>
<b>Significant progress made in the first 8 months of ownership</b>	<ul style="list-style-type: none"><li>• Jan to Jun 2011 total costs £68.9m below regulated allowances and £56.4m below same period last year</li><li>• Average customer minutes lost 95.5% of Ofgem target for 10/11 which is 36.9% better than last year</li><li>• Customer interruptions improved in 10/11 compared to 09/10</li></ul>

## ***2. Strategy, Business Plan and Management Structure***



# UKPN vision

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

1. An Employer of Choice

2. A Respected Corporate Citizen

3. Sustainably Cost Efficient

# New management structure

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

## Regulated Networks

## Non-regulated Networks

**Barry Hatton**

*Director of Asset Management*

*30 years in industry*

**Patrick Clarke**

*Director of Network Operations*

*33 years in industry*

**Nirmal Kotecha**

*Director of Capital Programme*

*Extensive experience in capital planning*

**Mark Adolphus**

*Director of Connections*

*19 years in industry*

**Martin Howard**

*Director of Customer Services*

*Extensive experience in customer service*

**Murdo Allan**

*Director of Health, Safety and Sustainability*  
*30 years in industry*

**Chris Degg**

*Director of HR*

*25 years in HR*

**Richard Roberts**

*Director of Finance*

*19 years in industry*

**Ben Wilson**

*Director of Strategy & Regulation & CFO*  
*15 years in utilities*

**Andrew Bilecki**

*Chief Information Officer*

*15 years in utilities*

**Stewart Dawson**

*Director of Infrastructure Services*

*30 years in industry*

- Management team now in place
- Four external appointments
- Two internal promotions
- Three significant changes in responsibilities
- Two remain unchanged

Management team focussed on operational excellence

# Operational changes being implemented

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

<b>Achieving Commercial Excellence (ACE)</b>	<ul style="list-style-type: none"> <li>Delivering improvement in end to end procurement processes with major contractors and suppliers</li> </ul>
<b>Indirect Cost Efficiency (ICE)</b>	<ul style="list-style-type: none"> <li>Review of all areas of indirect costs including management hierarchy, back office and support functions which will result in a reduction of indirect costs of approximately £20 million and a reduction in employee numbers of 400 to 600.</li> </ul>
<b>Improving Customer Satisfaction</b>	<ul style="list-style-type: none"> <li>Delivering a truly customer focussed business</li> <li>Improve the capacity and calibre of customer-facing teams e.g. call centre, new connections, service alterations</li> <li>Streamline the new connections process</li> <li>Focus on areas playing into Ofgem's 'Broad Measure of Customer Satisfaction'</li> <li>Reduce number and value of compensation payments</li> </ul>
<b>Quality of supply</b>	<ul style="list-style-type: none"> <li>Delivering operational improvements to minimise CMLs including faster response and restoration times</li> <li>Delivering focussed investment in maintaining and replacing access to reduce CIs</li> </ul>
<b>Field Staff Productivity</b>	<ul style="list-style-type: none"> <li>Track all field staff using vehicle tracker infrastructure</li> <li>Review restrictive safety processes that slow the progress of work</li> <li>Implement tighter control of overtime working and review flexible working arrangements</li> <li>Introduce a realistic pay/ productivity scheme to incentivise operational productivity improvements</li> </ul>
<b>Asset Management</b>	<ul style="list-style-type: none"> <li>Improve asset replacement and reinforcement modelling capabilities</li> <li>Review high maintenance assets and carry out replacement versus maintenance analysis</li> <li>Undertake a detailed review of capital jobs to identify further opportunities for removing or deferring projects</li> </ul>
<b>Data integrity</b>	<ul style="list-style-type: none"> <li>Review our systems and processes to ensure that they meet best-in-class standards for capturing non-financial data, and are aligned to Ofgem's new RIGs reporting requirements</li> </ul>



# Improving quality of service

- Key metrics show a positive trend in Q1 11/12
- Our relative performance on CIs/CMLs has changed significantly compared to the industry

## Telephony Performance through customer survey

DNO	10/11 Score (Rank)	Q1 11/12 Score (Rank)
EPN	4.30 (10)	4.48 (5)
LPN	4.15 (14)	4.35 (12)
SPN	4.24 (12)	4.48 (6)
Best DNO	4.64	4.67
Ave DNO	4.37	4.32

## Customer Interruptions per 100 customers

DNO	10/11 % of Ofgem target	Q1 11/12 % of Ofgem target
EPN	114.3%	80.5%
LPN	77.4%	65.6%
SPN	92.1%	54.2%
Ave UKPN	98.4%	66.5%

## Average Customer Minutes Lost

DNO	10/11 % of Ofgem target	Q1 11/12 % of Ofgem target
EPN	102.7%	70.1%
LPN	107.3%	82.0%
SPN	84.0%	51.8%
Ave UKPN	95.5%	64.7%

Initial focus on daily operational performance

# Improving cost efficiency

£m Nominal Prices	April to June Quarter			
	2010/11	2011/12	Allowed	Var.to allowed
Opex	43.1	37.1	37.6	0.5
Capex	82.7	63.2	98.4	35.2
Indirect costs	68.1	56.7	58.4	1.7
Non op capex	3.9	12.4	7.7	(4.7)
Traffic Management Act	0.9	0.8	0.7	(0.1)
<b>Total</b>	198.7	170.2	202.8	32.6

- Tight focus on cost control has resulted in total expenditure in the quarter from April to June 2011 being £28.5 million below last year and £32.6 million below regulated allowances
- Opex continues in line with regulatory allowances
- Capex underspend contributed to by more efficient delivery and reduced requirement to reinforce the networks as growth has slowed

### ***3. Treasury Strategy***

# Capital structure and dividend policy

- 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%.

£m nominal	EPN	LPN	SPN	Total
<b>30 June 2011</b>				
Net Debt	1,302	905	864	3,071
RAV	1,999	1,349	1,250	4,598
<b>Net Debt / RAV ratio</b>	<b>65.1%</b>	<b>67.1%</b>	<b>69.1%</b>	<b>66.8%</b>

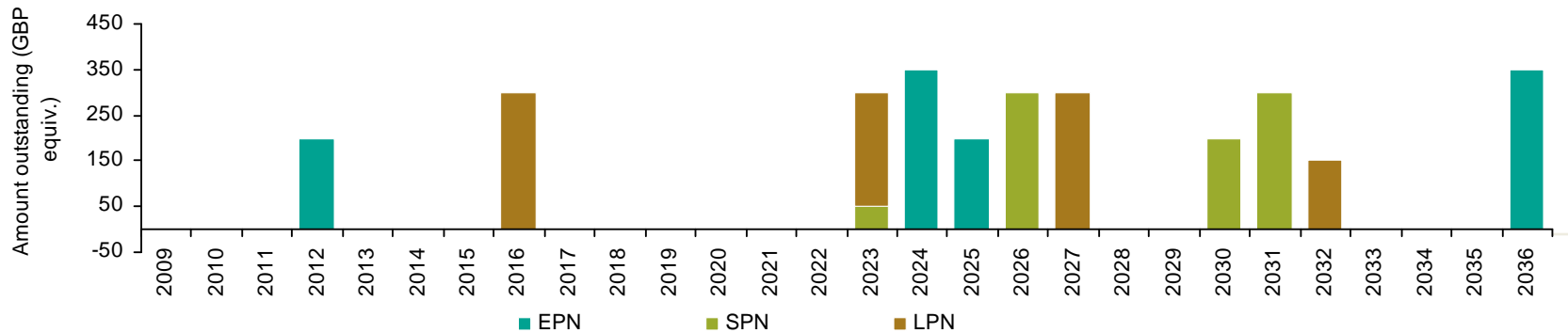
# Group sources of liquidity

## UKPN Credit Lines at 30 June 2011

Entity	Facility	Drawn Amount £'m	Undrawn Amount £'m	Total £'m	Maturity
EPN	Syndicated Term Loan	145	-	145	Jul-13
		145	-	145	
EPN	RCF	50	162	212	Jul-15
LPN	RCF	-	155	155	Jul-15
SPN	RCF	-	133	133	Jul-15
		50	450	500	
<b>Total</b>		<b>195</b>	<b>450</b>	<b>645</b>	

# UKPN's debt maturity profile

## Current bond maturity profile



Issuer	Coupon	Maturity	Rating (S&P/Moody's/Fitch)	Size	Issue date	Benchmark
EPN	8.75%	30 Mar 12	BBB+/Baa1/BBB+	GBP200m	Apr 97	UKT 5% Mar 12
EPN	5.75%	8 Mar 24	BBB+/Baa1/BBB+	GBP350m	Mar 04	UKT 5% Mar 25
EPN	8.5%	31 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%	7 Jun 27	BBB+/Baa1/A-	GBP300m	Jun 02	UKT 6% Dec 28
LPN	5.125%	Mar 23	BBB+/Baa1/A-	GBP250m	Jun 11	UKT 4% Mar 22
LPN **	3.125%	7 Jun 32	BBB+/Baa1/A-	GBP150m	Jun 02	UKTI 4.125% Jul 30
SPN **	3.053%	5 Jun 23	BBB+/Baa1/BBB+	GBP 50m	Jun 03	UKTI 2.5% Jul 25
SPN	5.5%	5 Jun 26	BBB+/Baa1/BBB+	GBP300m	Jun 03	UKT 5% Mar 25
SPN	5.625%	Sep 30	BBB+/Baa1/BBB+	GBP200m	Jun 11	UKT 4.75% Dec 30
SPN *	6.125%	Nov 31	BBB+/Baa1/BBB+	GBP300m	Nov 09	UKT 4% Mar 32

\* contained flipper and rating step up language which has now expired

\*\* index linked

## ***4. Conclusion***

# Summary

- Long term committed shareholders with established long track record of efficiently operating power and utility companies
- Focussed 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 8 months
- Commitment to current ratings across the Group

We aim to achieve upper third performance by 2013/14



# Potential bond transaction

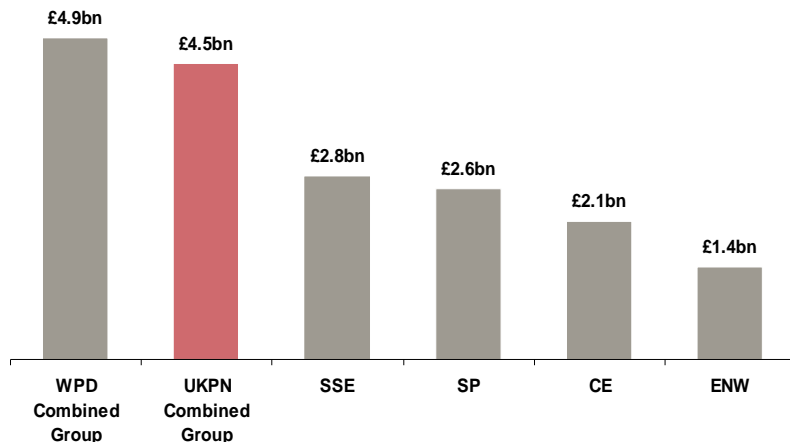
<b>Issuer</b>	Eastern Power Networks plc
<b>Amount</b>	£Benchmark
<b>Expected Rating</b>	BBB+ / Baa1 / BBB+
<b>Maturity</b>	Intermediate
<b>Documentation</b>	EMTN Programme
<b>Use of Proceeds</b>	Repaying existing bank debt, no increase in leverage

# *Appendix*



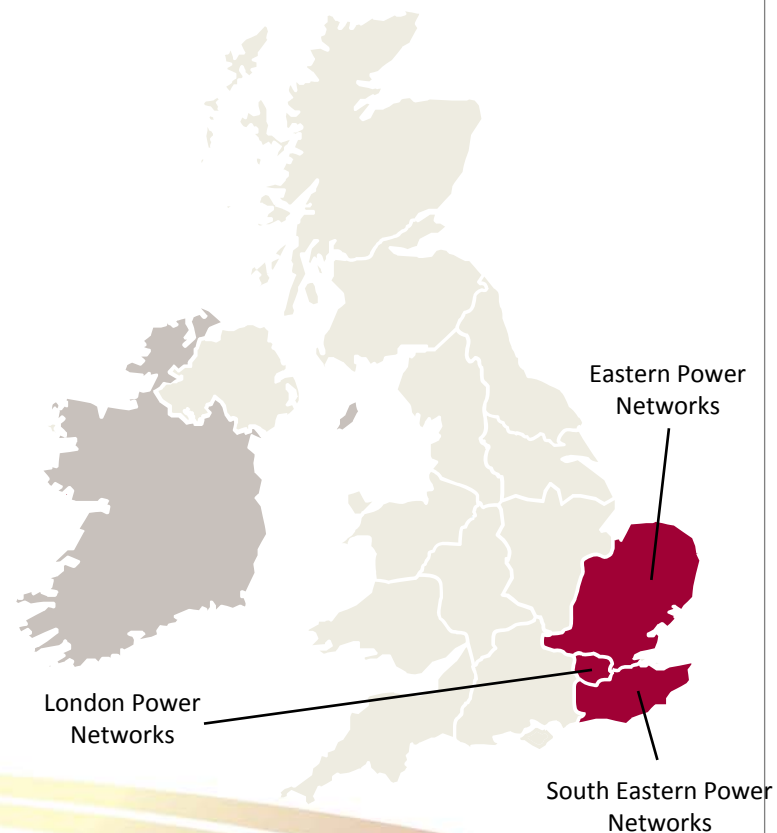
# UKPN vs other DNOs

## Regulated Asset Value<sup>(1)</sup>



Entity	RAV <sup>(1)</sup>	Rating	End Customers
London Power Networks	£1,337m	BBB+ / Baa1 / A-	2.3m
Eastern Power Networks	£1,969m	BBB+ / Baa1 / BBB+	3.4m
South Eastern Power Networks	£1,224m	BBB+ / Baa1 / BBB+	2.2m
<b>Group Total</b>	<b>£4,530m</b>		<b>7.9m</b>

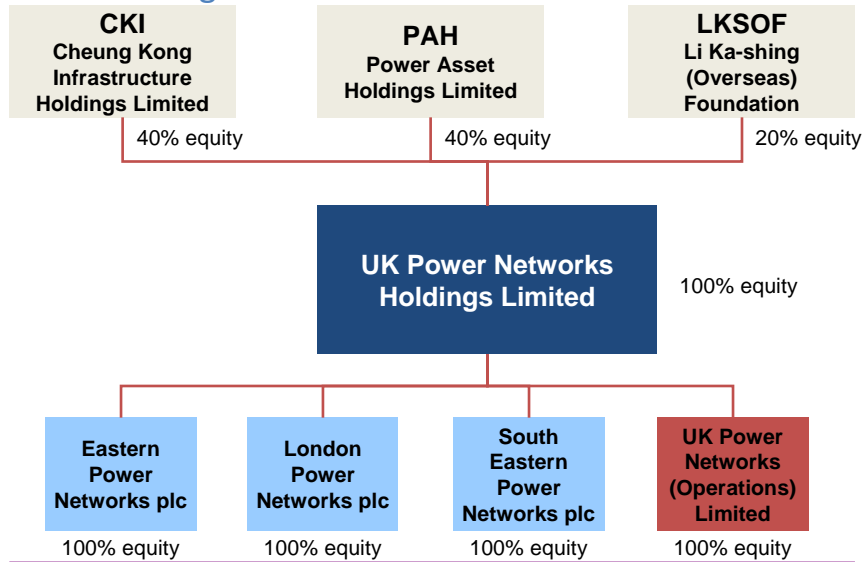
## Geographic Coverage



(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).

# Pensions position and agreement with Trustees

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

- **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 £150 million made in October 2010 (paid by EDF Energy)
  - 52% of the deficit to be repaired to 31 March 2016 (including the £150 million upfront contribution)
  - 33% of the deficit to be repaired between 1 April 2016 and 31 March 2021
  - 14% of the deficit to be repaired between 1 April 2021 and 31 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

# Disclaimer

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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.