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PHOENIX NATURAL GAS FINANCE PLC

(incorporated with limited liability in Northern Ireland with registered number NI600904)

£275,000,000

5.50 per cent. Guaranteed Bonds due 2017

guaranteed by

PHOENIX NATURAL GAS LIMITED

(incorporated with limited liability in Northern Ireland with registered number NI032809)

and

PHOENIX DISTRIBUTION HOLDINGS LIMITED

(incorporated with limited liability in England and Wales with registered number 06455596)

Issue Price 99.373 per cent.

The £275,000,000 5.50 per cent. Guaranteed Bonds (the "**Bonds**") will be issued by Phoenix Natural Gas Finance PLC (the "**Issuer**") and guaranteed by Phoenix Natural Gas Limited (the "**PNG Guarantee**") and Phoenix Distribution Holdings Limited ("**PDHL**"), and any successor guarantor of PDHL, the "**Holdco Guarantor**") (the "**Holdco Guarantee**" together with the PNG Guarantee, the "**Guarantees**", and Phoenix Natural Gas Limited and the Holdco Guarantor, together, the "**Guarantors**" and each a "**Guarantor**"). Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Dates falling on 10 January and 10 July in each year with the first payment being made on the Interest Payment Date falling on 10 January 2010. Payments on the Bonds will be made without deduction for or on account of taxes of United Kingdom to the extent described under "*Terms and Conditions of the Bonds — Taxation*".

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 10 July 2017. The Bonds are subject to redemption in whole at their principal amount, together with interest accrued to the date fixed for redemption, at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom (see Condition 5(c) (*Redemption for Taxation Reasons*)). The Bonds may also be redeemed at the option of the Issuer, in whole or in part in a principal amount equal to or greater than £5,000,000, at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield on the relevant United Kingdom Government stock plus 0.20 per cent., together with any interest accrued to but excluding the date of redemption (see Condition 5(d) (*Redemption at the Option of the Issuer*)). In addition, a holder of a Bond may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount together with accrued and unpaid interest on the date determined in accordance with Condition 5(b) (*Regulatory Put*) upon the occurrence of a Regulatory Put Event (as defined in Condition 5(b) (*Regulatory Put*)). See Condition 5 (*Redemption and Purchase*).

An investment in the Bonds involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**U.K. Listing Authority**") for the Bonds to be admitted to the official list of the U.K. Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Bonds to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Bonds being "listed" (and all related references) shall mean that the Bonds have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The denomination of the Bonds shall be £50,000 and integral multiples of £1,000 in excess thereof, up to and including £99,000.

The Bonds will initially be represented by a Temporary Global Bond, without interest coupons, which will be issued in new global note ("**NGN**") form and will be delivered on or prior to 3 November 2009 to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Temporary Global Bond will be exchangeable for interests recorded in the records of Euroclear and Clearstream, Luxembourg in a Global Bond, without interest coupons, on or after a date which is expected to be 13 December 2009, upon certification as to non-U.S. beneficial ownership. The Global Bond will be exchangeable for definitive Bonds in bearer form in the denomination £50,000 and integral multiples of £1,000 in excess thereof not less than 60 days following the request of the Issuer or the holder in the circumstances set out in it. No definitive Bonds will be issued with a denomination above £99,000. See "*Summary of Provisions Relating to the Bonds while in Global Form*".

The Bonds are expected on issue to be rated Baa2 by Moody's Investors Service Limited ("**Moody's**") and BBB+ by Fitch Ratings Ltd ("**Fitch**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning Rating Agency.

JOINT LEAD MANAGERS & JOINT BOOKRUNNERS

Barclays Capital

The Royal Bank of Scotland

Prospectus dated 28 October 2009

IMPORTANT NOTICE

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to Phoenix Natural Gas Finance PLC (the “**Issuer**”), Phoenix Natural Gas Limited (“**PNG**”), Phoenix Distribution Holdings Limited (“**PDHL**”, and any successor guarantor of PDHL, the “**Holdco Guarantor**”) (PNG and the Holdco Guarantor together, the “**Guarantors**” and each a “**Guarantor**” and, together with the Issuer, the “**Phoenix Financing Group**”) and the £275,000,000 5.50 per cent. Guaranteed Bonds due 2017 (the “**Bonds**”) which, according to the particular nature of the Issuer, the Guarantors and the Bonds, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantors and the rights attaching to the Bonds.

The Issuer accepts responsibility for the information contained in this Prospectus (including Appendix A and Appendix B), and each of the Guarantors accepts responsibility for the information contained in this Prospectus (including Appendix A and Appendix B) and, respectively, the PNG Guarantee and the Holdco Guarantee (each as defined below) which relates to it. To the best of the knowledge and belief of each of the Issuer and the Guarantors (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus for which it has accepted responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantors or the Joint Lead Managers and Joint Bookrunners (as defined in “*Subscription and Sale*” below) to subscribe or purchase, any of the Bonds. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantors and the Joint Lead Managers and Joint Bookrunners to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Bonds and distribution of this Prospectus, see “*Subscription and Sale*” below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors or the Joint Lead Managers and Joint Bookrunners.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantors since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Issuer, the Guarantors or the Joint Lead Managers and Joint Bookrunners undertakes to review the financial condition or affairs of any of the Issuer or the Guarantors during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention. This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantors or the Joint Lead Managers and Joint Bookrunners that any recipient of this Prospectus should purchase any of the Bonds.

Each person contemplating making an investment in the Bonds must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantors, its own determination of the suitability of any such

investment with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Bonds should consult independent professional advisers.

The Joint Lead Managers and Joint Bookrunners accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager and Joint Bookrunner or on its behalf in connection with the Issuer, the Guarantors, or the issue and offering of the Bonds. Each of the Joint Lead Managers and Joint Bookrunners accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

None of the Joint Lead Managers and Joint Bookrunners, the Bond Trustee nor the Security Trustee have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no liability is accepted by the Joint Lead Managers and Joint Bookrunners, the Bond Trustee or the Security Trustee, or any of them, as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer or the Guarantors in connection with the Bonds or their distribution.

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

In this Prospectus, unless otherwise specified, references to a “**Member State**” are references to a member state of the European Economic Area, references to “**Pounds**”, “**sterling**”, “**Sterling**” or “**£**” are to the lawful currency of the United Kingdom and references to “**€**”, “**EUR**”, “**Euro**” or “**euro**” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended (the “**EC Treaty**”).

In connection with the issue of the Bonds, The Royal Bank of Scotland plc (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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OVERVIEW

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Words and expressions not defined in this section shall have the same meanings as defined elsewhere in this Prospectus.

The Issuer:	Phoenix Natural Gas Finance PLC, a public company incorporated in Northern Ireland with limited liability on 7 October 2009 (registered number NI600904), is the funding vehicle for raising funds to support the long-term debt financing requirements of PNG. The Issuer is a 100 per cent. subsidiary of PNG.
Phoenix Natural Gas Limited (“PNG”):	Phoenix Natural Gas Limited, a company incorporated in Northern Ireland on 11 August 1997 (registered number NI032809), which holds a licence to convey gas in Northern Ireland within the Licensed Area (as defined below).
Phoenix Distribution Holdings Limited (“PDHL” or “Holdco Guarantor”):	Phoenix Distribution Holdings Limited, a private limited company incorporated in England and Wales with limited liability on 17 December 2007 (registered number 06455596), is the holding company of PNG.
Joint Lead Managers and Joint Bookrunners:	Barclays Bank PLC and The Royal Bank of Scotland plc.
Bond Trustee:	Citicorp Trustee Company Limited will act as bond trustee (the “ Bond Trustee ”) for and on behalf of the holders of the Bonds (each a “ Bondholder ”).
Security Trustee:	Citicorp Trustee Company Limited will act as security trustee (the “ Security Trustee ”), for itself and on behalf of the Secured Creditors and will hold, and will be entitled to enforce in accordance with its terms, the Transaction Security (as described below) subject to the terms of the Intercreditor Agreement.
Secured Creditors:	The Secured Creditors will comprise any person who from time to time is a party to, or has acceded to, the Intercreditor Agreement as a Secured Creditor, and includes, as at the Closing Date, the Security Trustee, the Bond Trustee (for itself and on behalf of the Bondholders and the Couponholders), the Paying Agents and the Senior Lenders. Other parties, including Hedge Counterparties, may become Secured Creditors from time to time by acceding to the Intercreditor Agreement.
Senior Lenders:	The lenders under an agreement for a £50 million senior secured revolving capex facility and a £30 million senior secured working capital facility (together, the “ Senior Facilities Agreement ”) which will be entered into by PNG as borrower.
Paying Agents:	Citibank, N.A., London Branch will act as principal paying agent (the “ Principal Paying Agent ”) and, together with any other paying agents appointed by the Issuer, the “ Paying Agents ”) to provide certain issue and paying agency services to

the Issuer in respect of the Bonds.

Hedge Counterparties:	There will not be any Hedge Counterparty on the Closing Date, but Hedge Counterparties may become Secured Creditors by acceding to the Intercreditor Agreement as Secured Creditors.
Bonds:	£275,000,000 5.50 per cent. Guaranteed Bonds due 2017 unconditionally guaranteed by the Guarantors.
Issue Price:	99.373 per cent. of the principal amount of the Bonds.
Closing Date:	Expected to be on or about 3 November 2009.
Use of Proceeds:	The proceeds of the issue of the Bonds will be used by the Issuer to make a loan to PNG pursuant to the Issuer/PNG Loan Agreement to enable PNG to refinance its existing intra-group and external indebtedness and associated costs and expenses. See " <i>Use of Proceeds</i> ".
Status of the Bonds:	The Bonds are senior, unsubordinated, unconditional and unsecured obligations of the Issuer. The Bonds are guaranteed by the Guarantors.
Status of Guarantee:	Each of the guarantee by PNG (the " PNG Guarantee ") and the guarantee by the Holdco Guarantor (the " Holdco Guarantee ") is a senior, unsubordinated and unconditional obligation of PNG and the Holdco Guarantor, respectively. The PNG Guarantee is unsecured and the Holdco Guarantee is secured by the Transaction Security (as defined below).
Form and Denomination:	The Bonds will be issued in bearer form in the denominations of £50,000 and integral multiples of £1,000 in excess thereof, up to and including £99,000. No definitive Bonds will be issued with a denomination above £99,000.
Maturity Date:	The maturity date of the Bonds is 10 July 2017.
Redemption and Purchase:	See " <i>Terms and Conditions of the Bonds</i> ".
Cross-acceleration:	The Bonds contain a cross-acceleration provision whereby if any present or future indebtedness of the Issuer or the Guarantors becomes due and payable prior to its stated maturity by reason of an actual event of default, this will constitute an Event of Default under the Bonds (see Condition 8(d) (<i>Cross-Acceleration</i>)).
Other Covenants:	PNG will enter into the Senior Facilities Agreement which contains a bank facility covenant package which is more restrictive in some respects than the covenants contained in the terms and conditions of the Bonds and the Trust Deed. In addition, the Issuer and the Guarantors may, subject to certain restrictions, enter into other agreements to incur indebtedness on such terms as agreed at the time.
Holdco Guarantor Events of Default:	If an Event of Default occurs as a result of an event which relates only to a member of the Group other than PNG or the Issuer, such Event of Default shall be deemed not to have occurred in relation to PNG and the Issuer. See Condition 8 (<i>Events of Default</i>).

Taxation:	All payments in connection with the Bonds will be made without withholding or deduction for or on account of any taxes, duties or other levies of whatever nature unless such withholding or deduction is required by applicable law. To the extent such withholding or deduction is in respect of tax, imposed or levied by or on behalf of the United Kingdom (the “ U.K. ”) or any authority thereof or therein having power to tax, the Issuer, the Holdco Guarantor or PNG (as the case may be) will pay such additional amounts as will result in the receipt by the Bondholder or Couponholder of such amount as would have been received by such holder had no such withholding or deduction been so required, subject to customary exceptions. See Condition 7 (<i>Taxation</i>).
Ratings:	The ratings on the Bonds address the timely receipt of scheduled interest payments and the ultimate payment of principal on the Bonds in accordance with the Issue Documents. The rating assigned to the Bonds by Moody’s will reflect only the views of Moody’s and is expected to be Baa2, and the rating assigned to the Bonds by Fitch will reflect only the views of Fitch and is expected to be BBB+.
Issuer/PNG Loan Agreement:	A loan agreement which will be entered into between PNG and the Issuer (the “ Issuer/PNG Loan Agreement ”), pursuant to which the Issuer will grant an intra-group loan to PNG of an amount equal to the proceeds of the Bonds raised by the Issuer (the “ Issuer/PNG Loan ”). Funds received under the Issuer/PNG Loan from PNG will enable the Issuer to make payments on the Bonds and fund its costs and expenses.
Issue Documents:	The Bonds, the Trust Deed, the Paying Agency Agreement, the Issuer/PNG Loan Agreement, the Security Agreement and the Intercreditor Agreement.
Kellen Deed of Covenant and the Kellen Security:	A deed of covenant (the “ Kellen Deed of Covenant ”) which will be entered into by Carmel Capital II S.á r.l. (“ Carmel ”), Kellen Capital Limited (“ Kellen Capital ”) (being holding companies of PNG and PDHL) and PDHL and certain connected security documents, all as further described in “ <i>Key Documents - Kellen Deed of Covenant</i> ”.
Transaction Documents:	The Issue Documents and the Senior Facilities Agreement.
Intercreditor Agreement:	The intercreditor agreement which will be entered into between the Secured Creditors (and, in the case of the Bondholders, the Bond Trustee on behalf of the Bondholders), the Issuer and the Guarantors to regulate the claims of the Secured Creditors and the rights of the Issuer and the Guarantors (the “ Intercreditor Agreement ”). The Intercreditor Agreement contains a provision whereby if a representative of a Secured Creditor (a “ Secured Creditor Representative ”) notifies the Security Trustee that an event of default has occurred under a relevant secured credit agreement (which includes the Senior Facilities Agreement), a standstill period will commence during which no action may be taken by, or on behalf of, any Secured Creditor

other than a Hedge Counterparty (in certain specified circumstances) to enforce its rights against the Issuer or the Guarantors. The standstill period will end after six months of such event of default unless terminated earlier. At the end of the standstill period (unless the standstill period is terminated due to a remedying or waiver of the applicable event of default) all liabilities of the Issuer and the Guarantors to the Secured Creditors (including the Issuer's and the Guarantors' liabilities under the Bonds) will be automatically accelerated. See "*Intercreditor, Enforcement and the Senior Facilities Agreement*".

Security Agreement:

The security agreement which will be entered into between PDHL and the Security Trustee, pursuant to which PDHL will grant, as security for the Holdco Guarantee, (i) fixed security over all its shares in PNG (the "**Share Charge**") (ii) an assignment of its rights in respect of the undertakings made to it by Carmel and Kellen Capital in the Kellen Deed of Covenant and the security granted in its favour under the Carmel Security Document and the Kellen Capital Security Document (together the "**PDHL Kellen Security**") and (iii) a floating charge over all of its assets and undertaking (the "**Floating Charge**" with the Share Charge, the PDHL Kellen Security and the Floating Charge being, together, the "**Transaction Security**").

In the event of a replacement of PDHL or its replacement guarantor with a new guarantor as part of a Permitted Reorganisation, the new guarantor will be required under the Trust Deed to enter into a security agreement with the Security Trustee on substantially the same terms as the Security Agreement to secure its obligations under the Holdco Guarantee and will also be required to enter into a deed of covenant with Carmel and Kellen Capital on substantially the same terms as the Kellen Deed of Covenant. For a description of Permitted Reorganisation, see "*Overview of the Phoenix Group*".

The Transaction Security is granted in favour of the Security Trustee (on trust for the Secured Creditors). The claims of the Secured Creditors in respect of the Transaction Security will be regulated by the Intercreditor Agreement.

The Issuer is not granting security for its obligations in respect of the Bonds and the Issue Documents and will be dependent on the Issuer/PNG Loan as a source of funds.

PNG is not granting security for its obligations in respect of the PNG Guarantee.

Governing Law:

Save for the Security Agreement, which is governed by Northern Irish law, the other Transaction Documents and all non-contractual obligations arising out of or in connection with them will be governed by English law.

Listing and Trading:	Applications have been made for the Bonds to be admitted to listing on the Official List and to trading on the regulated market of the London Stock Exchange.
Clearing Systems:	Euroclear/Clearstream, Luxembourg.
Selling Restrictions:	See “ <i>Subscription and Sale</i> ”.
Risk Factors:	Investing in the Bonds involves risks. See “ <i>Risk Factors</i> ”.
Financial Information:	See Appendix A “ <i>Independent Auditors’ Report and Financial Statements of PNG</i> ” and Appendix B “ <i>Independent Auditors’ Report and Financial Statements of PDHL</i> ”.

RISK FACTORS

Investing in the Bonds involves certain risks and the following sets out some of the risks of which prospective Bondholders should be aware. Prospective investors including prospective investors that have read the preliminary Prospectus should read the entire Prospectus. Words and expressions defined in the “Terms and Conditions of the Bonds” below or elsewhere in this Prospectus have the same meanings in this section.

Prospective Bondholders should note that the risks described below are not the only risks that the Issuer or the Guarantors face. The Issuer and the Guarantors have described only those risks relating to their operations and the Bonds that they consider to be material. There may be additional risks that the Issuer and/or the Guarantors currently consider not to be material or of which they are not currently aware. Any of the risks described below could have the effects set forth below or other effects. Prospective Bondholders should read the detailed information set out elsewhere in this document prior to making any investment decision. Further, any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment. Bondholders may lose the value of their entire investment in certain circumstances.

Regulatory Considerations and Costs

Regulatory environment, revenue and costs

The gas industry is subject to extensive legal and regulatory obligations and controls, and PNG must comply with all applicable laws, regulations and regulatory standards (see “*Regulation of PNG and the Gas Industry in Northern Ireland — Regulatory Framework*”).

Such legal and regulatory obligations and controls include operation of PNG's business under a licence granted to it by the Department of Economic Development (now the Department of Enterprise, Trade and Investment) (“**DETI**”), under which it is regulated by the Northern Ireland Authority for Utility Regulation (the “**NIAUR**”). PNG's Licence entitles it to charge customers for access to and use of its pipeline network and to recover reasonable costs in the operation, maintenance and development of that network. The Licence also sets out the methodology for determining the amount of revenue that PNG may earn from its conveyance business as well as ensuring the safety and functionality of the network and the on-going viability of the conveyance business. Key legal and regulatory controls, including those imposed by the Licence, are as follows:

Principal legislation

PNG's activities are principally regulated by The Gas (Northern Ireland) Order 1996 (and the Licence, which is granted under this Order) and The Energy (Northern Ireland) Order 2003 (see “*Regulation of PNG and the Gas Industry in Northern Ireland — Regulatory Framework*”).

Licence – principal conditions

The principal requirements of the Licence include requirements for PNG to develop the network, achieve certain standards of performance and provide certain information to the NIAUR (see “*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence - Principal conditions*”).

Licence – financial ring-fencing conditions

To reduce the risk of PNG being unable to perform its regulated activities, there are certain restrictions on payments (including distributions), indebtedness, cross-default and non-regulated business activities (see “*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence - financial ring-fencing conditions*”).

Associated activities

PNG is required under the Licence to carry out certain activities associated with operating the network, including installing and disconnecting gas meters, maintaining a 24 hour emergency service and extending network coverage (see "*Description of Phoenix Natural Gas Limited — Associated Activities*").

Regulated asset value ("RAV") based regulation

Two different concepts of regulated asset value are used to calculate PNG's allowed return – "depreciated asset value" ("DAV") and "total regulatory value" ("TRV"). Prices are set so that the present value of the net cashflow up to the end of 2046 is equal to the difference between the TRV at the end of the previous review period and the present value of the DAV, working capital and capital creditors at the end of 2046 (see "*Regulation of PNG and the Gas Industry in Northern Ireland – Regulated Asset Value ("RAV") Based Regulation*").

Price control

PNG is subject to a price control which is reset every 5 years. The level of revenue which PNG may receive is set out in the price control conditions contained in the Licence (see "*Description of Phoenix Natural Gas Limited — Price Control*").

Profile Adjustment

Recovery of PNG's current costs is partially deferred to future periods when the customer base and volumes are expected to be greater. Distribution income is therefore set based on forecast costs and volume over the 40-year period from 2006, with a Profile Adjustment calculated by the NIAUR every 5 years (see "*Regulation of PNG and the Gas Industry in Northern Ireland — Profile Adjustment Mechanism*").

The requirements and regulatory framework referred to above present risks of which prospective Bondholders should be aware, and which are described in more detail below.

Under the current regulation by the NIAUR, PNG's allowed revenue is determined by the distribution price controls set out in the terms of its Licence, which are generally set by the NIAUR every 5 years. The current price control is applicable for the period from 1 January 2007 to 31 December 2011 (see "*Description of Phoenix Natural Gas Limited — Price Control*"). The revenue cap and connections incentive proposals from the NIAUR were reviewed and accepted by PNG and were followed by a series of informal and formal licence modification consultations to introduce the methodology into the Licence. Unless the NIAUR proposes amendments to the price control condition, which PNG considers to be unlikely, there is a high degree of certainty as to the level of regulatory revenue until 31 December 2011.

The application and possible change of these laws, regulations and regulatory standards and the policies of the regulators, the NIAUR, DETI and the Health and Safety Executive (Northern Ireland) ("HSE(NI)") could have an adverse effect on the operations and financial condition of PNG. Change to market structures implemented as a result of legislative developments and regulatory decisions concerning, for example, whether licences or approvals to operate are granted or renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level and timing of permitted revenues for PNG business, and proposed business development activities could have an adverse impact on PNG's results of operations, cash flows, the financial condition of its businesses and the ability to develop businesses in the future.

The NIAUR has a principal objective to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. While one of the general duties of NIAUR is to exercise its functions to ensure that licence holders (such as PNG) are able to finance matters which are the subject of obligations under the Energy Order, there can be no assurance that current and/or future price controls will at all times permit the generation of sufficient revenues to enable PNG to meet its payment obligations under the PNG Guarantee. There can also be no assurance that net operating revenues generated by PNG will be sufficient to meet such payment obligations.

The application of a Profile Adjustment creates a mechanism to partially defer costs within the current 5 year price control period to future periods based on consideration of forecast costs and volumes over a longer 40-year period. There can be no guarantee that assumptions underpinning those longer-term forecasts, including connection levels, volumes and costs, will not change, thereby changing the profile of this adjustment in the future as part of any 5 year price control process.

Other modifications to the Licence

NIAUR and DETI have formal powers to propose other modifications to the Licence, which may have a financial effect on the business of PNG. PNG is not aware of any planned modification of its Licence which could have a material adverse effect on it, but there can be no assurance that a modification will not be implemented which could have an adverse effect on the operations and financial condition of PNG. The circumstances in which modifications to PNG's Licence can be made are set out in "*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence — Modification*".

Consequences of not complying with the regulatory requirements or the Licence

Any breach by PNG of its Licence or relevant statutory requirements could have a material adverse effect on its financial condition.

A failure by PNG to comply with certain provisions of its Licence or any duty or other requirement imposed on PNG by or under an order made under Article 27(4)(b) of the Energy Order may lead to the making of a provisional or final enforcement order, which is enforceable by injunction, by the NIAUR, which could have an adverse impact on PNG. Failure to comply with an enforcement order is a ground for DETI to revoke the Licence (see "*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence — Revocation*"). Furthermore, any person who suffers loss as a result of PNG contravening an enforcement order may make a direct claim against PNG. However, pursuant to Article 44 of the Energy Order, there are certain limited grounds on which a final or provisional enforcement order can be appealed against within 42 days of its service.

Independently, and without first being required to make an enforcement order, the NIAUR has powers to levy fines of up to 10 per cent. of the turnover of PNG for any breach of its Licence, certain statutory duties or certain standards of performance. In addition, DETI has powers to revoke the Licence in certain circumstances by giving not less than 30 days' written notice. Such circumstances include if PNG agrees in writing that the Licence should be revoked, late payment of licence fees, failure to comply with an enforcement order, failure to pay a fine imposed by the NIAUR for non-compliance with the Gas Order, the Energy Order or its Licence and failure to comply with orders made under certain sections of the Competition Act 1998 and the Fair Trading Act 1973. In addition, the NIAUR may revoke the Licence with notice due to certain specified insolvency events. See "*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence — Revocation*". Unless terminated in the circumstances mentioned above, the Licence continues indefinitely until revoked by DETI following no less than 25 years' written notice.

PNG considers that it has in place policies, systems and processes to ensure compliance with its Licence and relevant legislation. PNG is not aware of any formal investigation by the NIAUR or DETI to which it is subject in relation to enforcement matters.

Adverse effect of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates

PNG is subject to certain covenants and restrictions in relation to listed debt securities and the bank loan facilities of the Phoenix Financing Group. PNG is also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder PNG in servicing the financial requirements of its business. The debt issued by the Issuer and guaranteed by PNG is rated by credit rating agencies and changes to these ratings may affect both the borrowing capacity of and the cost of these borrowings. PNG's borrowing capacity and its cost of borrowing could also be affected by adverse changes in the global credit markets. The

effective rate of tax paid by the Phoenix Financing Group may be influenced by a number of factors including changes in law and accounting standards.

Changes in the rate of inflation

PNG's allowed revenue is linked to the underlying rate of inflation (measured by the retail price index) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are also likely to impact on the operating costs and capital expenditure of PNG and, as such, there is no guarantee that actual costs borne by PNG will vary in line with RPI thereby making it more or, as the case may be, less difficult to operate within levels determined by NIAUR in the 5 year price control period.

TMA costs

The Traffic Management Act 2004 (the "TMA") is intended to provide better conditions for all road users through proactive management of the national and local road network. For gas distributors, it may potentially lead to increased costs for undertaking works on the highway. Whilst the TMA already applies in England and Wales, there is a separate legislative regime which applies in Northern Ireland for these matters. The potential costs for undertaking works on public roads or streets in Northern Ireland are set out in the Street Works (Northern Ireland) Order 1995 (as amended). See "*Regulation of PNG and the Gas Industry in Northern Ireland — Potential Significant Retrospective Adjustments — Traffic Management Act 2004 ("TMA")*". There can be no certainty that PNG will recover in full, through allowances and price control adjustments, the actual cost of PNG complying with the TMA and the Street Works (Northern Ireland) Order 1995 (as amended).

Retrospective adjustments

The PNG price control determination allows for retrospective adjustments to be made to PNG's allowed revenue in the event of changes to certain identified costs included in PNG's assumed cost base. Some of the potential changes to costs are within PNG's control, and others are not. Where these events result in an increase in PNG's costs, it will be allowed additional revenue to offset the resulting shortfall in revenue. However, in circumstances where the changes reduce PNG's costs, PNG may be subject to an adjustment or reopener of the allowed revenue levels previously determined by the NIAUR, the effect of which could be to reduce PNG's allowed revenues over the duration of the current price control. See "*Regulation of PNG and the Gas Industry in Northern Ireland – Potential Significant Retrospective Adjustments – Number of properties passed and numbers of customers connected*".

Reliance on skilled employees

PNG's success in operation depends to a certain extent on the continued services and performance of a skilled workforce. PNG's future success will depend on its ability to retain suitably qualified individuals and its ability to recruit individuals with the right experience and skills to replace those who leave or retire. The loss of qualified staff, or the inability to attract, retain or assimilate suitably qualified staff in the future, or the delay in hiring any such required personnel could have an adverse effect on PNG's ability to manage its assets adequately.

Financial and Operational Risks

Credit risk

PNG is exposed to the risk that its counterparties may default on the terms of their agreements. Any increase in the proportion of counterparties defaulting on their payment due to PNG could have an adverse effect on PNG's results of operations. PNG has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed on a regular basis.

Relationship with PSL and prepayments

Suppliers provide 100 per cent. of PNG's transportation income with Phoenix Supply Limited ("PSL"), as at 31 July 2009, contributing to approximately 93 per cent. of PNG's income.

As at 31 July 2009, 98 per cent. of PNG's income from suppliers (including PSL) was received through the prepayment arrangements detailed within PNG's Distribution Code. The current level of prepayment received from suppliers ranges between £2.1m per month during the summer and £5.5m per month during the winter. Therefore, if the prepayment arrangements were to cease, this would have an adverse impact on the cashflow and working capital position of PNG. Under the provisions of the PNG Distribution Code, prior to ceasing the prepayment arrangements the supplier would be required to provide alternative security in the form of a parent company guarantee or a letter of credit from an appropriately rated counterparty or cash deposit covering 62 days of peak indebtedness.

Financing and interest rate cashflow risk

PNG has both interest bearing assets and interest bearing liabilities. PNG's interest bearing assets are in the form of cash and treasury deposits, which bear interest at variable rates that fluctuate with changes to prevailing interest rates. Volatility in interest rates could therefore result in uncertainty over PNG's future cashflows. However, PNG is entitled to hedge through, amongst others, interest rate swaps in order to fix interest rates on liabilities and give greater certainty over future cashflows.

Hedging counterparty risk

Upon entering into any hedging agreements PNG or, if applicable, the Issuer, faces the possibility that a counterparty will become unable to honour its contractual obligations. These counterparties may default on their obligations due to insolvency, bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to PNG or the Issuer or from executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

Network failure risk

Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both PNG's financial position and its reputation. PNG is responsible for transporting available gas and amongst other things is reliant on interconnector pipelines bringing gas from the U.K. gas network to the island of Ireland. PNG consults with and provides information to the NIAUR and industry participants about future demand and the availability of capacity on the transmission network. However, where there is insufficient supply to meet demand, whether because of extreme weather conditions, or failure of plant or systems operated by other participants in the U.K. gas industry, transmission operators across the island of Ireland or third parties, PNG's role is to manage the relevant system safely, which, in extreme circumstances, may require PNG to interrupt supply to consumers.

PNG may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain in good order the Phoenix Network, inadequate forecasting of demand or inadequate record keeping. This could cause PNG to be in breach of the Licence and even incidents that do not amount to a breach could result in adverse regulatory action and financial consequences, as well as harming PNG's reputation. In addition to these risks, PNG is subject to other risks that are largely outside of its control, such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that damages infrastructure will adversely affect operational, and potentially, business performance. Terrorist attack, sabotage or other intentional acts may also physically damage PNG's businesses or otherwise significantly affect corporate activities and as a consequence affect the results of operations.

Business performance risk

PNG's results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated costs and efficiency savings. Earnings maintenance and growth from PNG's regulated gas business may be affected by its ability to meet or better efficiency targets and/or incentives set by the NIAUR. Earnings from PNG's regulated businesses will also be affected by its ability to recover incurred expenditure. Levels of earnings from PNG's businesses may also be affected by failure to meet service quality standards set by the NIAUR.

Notwithstanding anything in the risk factors set out in "*Risk Factors – Financial and Operational Risks*" above, these risk factors should not be taken as implying that the Issuer and/or the Guarantors will be unable to comply with their respective obligations under the Bonds admitted to the Official List or the Issue Documents.

Relationship with Kellen Group and tax risk

Where assets are transferred between two U.K. resident companies which were at that time members of the same capital gains tax group on a "no-gain no-loss basis", a contingent liability to corporation tax on chargeable gains will arise in the transferee company (a "**degrouching charge**"). Subject to certain exceptions, such a degrouching charge will generally be crystallised if the transferee company leaves the relevant capital gains tax group within 6 years of the date on which it acquired the assets in question while it or an associated company also leaving the group holds those assets.

As described in further detail in "*Description of Phoenix Natural Gas Limited - History and Background*" a reorganisation of the Phoenix business was undertaken on 1 January 2008 to separate the gas transmission business and distribution business where, among other things, PNG (under its former name of Phoenix Distribution (Northern Ireland) Limited) acquired the distribution business from Belfast Gas Transmission Limited (under its former name of Phoenix Natural Gas Limited). As a result, a degrouching charge could arise in PNG if PNG ceases to be a member of the capital gains tax group of which Kellen is the principal company on or before 1 January 2014. PNG would cease to be a member of the relevant tax group if, for example, the Share Charge were to be enforced by the Security Trustee or if there were to be a voluntary disposal of KAL or its subsidiaries (including PNG) before that date.

If, despite the arrangements described below, the degrouching charge was triggered, the amount of the degrouching charge would be based on the prevailing rate of corporation tax at the time the degrouching charge is treated as arising as applied to the difference between the value of the transferred assets at the time of transfer and their base cost and the Issuer has been advised that, on that basis, the degrouching charge would amount to approximately £46 million. Should a degrouching charge arise, it may be possible to offset this degrouching charge in whole or in part against available capital or other losses of PNG or other members of the relevant tax group. There can be no assurance, however, that any such losses would be available and usable to offset a degrouching charge.

The risks associated with PNG ceasing to be a member of the relevant capital gains tax group are mitigated under the Kellen Deed of Covenant in which Carmel and Kellen Capital (being holding companies of PNG and PDHL which are not in the capital gains tax group of which Kellen is the principal company) will make certain undertakings.

In respect of enforcement of the Share Charge, Carmel and Kellen Capital will undertake in the Kellen Deed of Covenant that if the Transaction Security is enforced they will pay an amount to PDHL equal to the guaranteed amounts due under the Holdco Guarantee and certain other guarantees granted by the Holdco Guarantor in respect of PNG's indebtedness.

In respect of a voluntary disposal, Carmel and Kellen Capital will undertake to PDHL that neither they nor any company they control will take or omit to take any action which is reasonably likely to result in a degrouching charge arising in PNG without paying to PDHL (for the benefit of PNG) an amount equal to a good faith estimate of the amount of such degrouching charge, on an after-tax basis (such an amount will also

be due if the undertaking is breached). Further, Carmel and Kellen Capital will undertake to PDHL that when an event of default or potential event of default has occurred under the Transaction Documents neither Kellen nor its subsidiaries will dispose of PSL, PESL or PEL unless certain conditions are met (see *Overview of the Key Documents - Kellen Deed of Covenant and Kellen Security*).

These undertakings are limited in recourse to the proceeds of enforcement of the security granted in respect of them (as described below) and will expire after the end of a covenant period ending, in broad terms, when the risk of the relevant degrouping charge arising ends.

The undertakings by Carmel and Kellen Capital in the Kellen Deed of Covenant will be supported by the grant by Carmel and Kellen Capital to PDHL of security over their shares in Kellen, being the immediate subsidiary of Carmel and Kellen Capital. The undertakings to PDHL and its rights in respect of the security will be assigned to the Security Trustee (on trust for the Secured Creditors) under the Security Agreement.

The intended consequences of these arrangements are that: (i) in the event of the Transaction Security becoming enforceable, the Secured Creditors could (subject to the decision making procedures set out in the Intercreditor Agreement) decide to enforce share security at a level which would not trigger the degrouping charge described above; and (ii) assuming compliance with the relevant undertaking, no voluntary corporate actions will take place that are reasonably likely to lead to the degrouping charge described above arising in PNG (and if this undertaking is breached an amount equal to an estimate of the amount of such degrouping charge will be due to PDHL).

Certain Legal Considerations

Insolvency considerations

Unlike many of the regulated utility companies in Great Britain, PNG would not currently be subject to special administration in the event of insolvency. In summary, the intended purpose of such regimes is to preserve continuity of regulated activities by the relevant utility company through financial difficulty due to the essential civic functions it performs. Therefore, although a special administration regime would not currently apply to PNG, if PNG became insolvent, regulatory intervention could still occur in order to safeguard the regulated functions. No assurance can be given on the effect of any such intervention.

Special administration

DETI has published a policy consultation paper with a deadline for responses of 25 September 2009. The paper outlines a proposal to introduce a special administration regime to Northern Ireland, a form of which already applies to “protected energy companies” (“PECs”) in Great Britain.

The Energy Act 2004 introduced a special administration regime in Great Britain for PECs, including gas transporters. This regime applies in similar circumstances to other forms of insolvency such as administration, liquidation or administrative receivership and the court may only make a special administration order if the relevant PEC is unable, or likely to be unable, to pay its debts or if it would be just and equitable to wind up the PEC on the grounds of public interest.

An energy administrator within Great Britain (a “**GB Energy Administrator**”) has a different objective from the other insolvency practitioners. The objective is to ensure that the relevant system is, and continues to be, maintained and developed as an efficient and economical system and that the order can be discharged by rescuing the relevant PEC as a going concern or (where this is not achievable) transferring its business and assets (in whole or in part) to another company under a statutory scheme. Such an objective does not ensure that any transfer in the context of an energy administration regime could be achieved on terms that would enable creditors to recover amounts due to them in full or that the creditors and members of the relevant PEC would recover as much as they would under other forms of insolvency. The GB Energy Administrator must exercise and perform his powers and duties in the manner which, so far as is consistent with the objective,

best protects the interests of the creditors of the company as a whole and, subject to those interests, the interests of the members of the company as a whole.

There can be no assurance that a special administration regime that could apply to PNG will be introduced within Northern Ireland or, if introduced, that the form of legislation and objectives of an energy administrator within Northern Ireland would be consistent with the Energy Act 2004 and the objectives of a GB Energy Administrator. Accordingly no assurance can be given on the effect appointment of a special administrator (if applicable) would have on repayment of the Bonds.

Environmental Considerations

PNG's operations are subject to a number of laws and regulations relating to the protection of the environment and human health as described in "*Regulation of PNG and the Gas Industry in Northern Ireland*". These laws establish, amongst other things, standards for the environment, and procedures governing operational development and maintenance.

It is likely that PNG will incur costs in the future in order to continue to comply with requirements imposed under existing or future environmental laws and regulations. Although the costs arising from such changes in legal requirements (see "*Regulation of PNG and the Gas Industry in Northern Ireland*") may, in certain cases, fall to be considered as part of a periodic review, there can be no certainty as to how and whether future environmental laws and regulations will impact the business and financial condition of PNG and/or the interests of the Bondholders. It is possible that the likely cost of fulfilling certain obligations as determined by the NIAUR will be less than the cost actually incurred by PNG. In such circumstances, the funding allowed by the NIAUR may not totally cover the actual costs and PNG would bear this additional element (see "*Regulation of PNG and the Gas Industry in Northern Ireland*").

Aspects of PNG's activities are potentially dangerous, such as distribution of natural gas. Gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of PNG's operations that are not currently regarded as having adverse effects that could become so. PNG is subject to laws and regulations relating to pollution, the protection of the environment and how PNG uses and disposes of hazardous substances and waste materials. Breaches of or changes in environmental or health and safety laws or regulations could expose PNG to claims for financial compensation and adverse regulatory consequences and could damage PNG's reputation and have the potential to expose PNG to costs and liabilities relating to its operations and properties.

Health and Safety

The HSE(NI) is responsible for regulating health and safety matters relating to, among other things, the operation of gas transportation infrastructure. There is a risk that the operating costs incurred by PNG in order to satisfy the safety requirements of the HSE(NI) are not all recoverable under current price control formulae.

PNG is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. Any breach of these obligations, or even incidents relating to the environment or to health and safety that do not amount to a breach, could adversely affect the results of operations and PNG's reputation.

High Leverage

The Phoenix Financing Group has indebtedness that is substantial in relation to its shareholders' equity.

As for other regulated U.K. utility companies, PNG's gearing covenants are linked to its regulated asset value, (TRV and DAV) and the levels defined under the Transaction Documents are similar to those found in other regulated utility financings. It is the Phoenix Financing Group's policy that these levels of gearing will be

maintained at such a level to ensure licence obligations with respect to its investment grade rating are met on an ongoing basis.

The ability of PNG to improve its operating performance and financial results will depend upon economic, financial, competitive, regulatory and other factors beyond its control, including fluctuations in interest rates and general economic conditions in the U.K..

Phoenix Financing Group and Bond Considerations

Special purpose vehicle Issuer

The Issuer is a special purpose financing entity with no business operations other than raising external funding for PNG through the issuance of the Bonds. After the Closing Date, the Issuer's obligations in respect of the Bonds and the Issue Documents will not be secured against any asset of the Issuer and the Issuer's only source of funds will be pursuant to the inter-company loan made by the Issuer to PNG (the "**Issuer/PNG Loan**") pursuant to the Issuer/PNG Loan Agreement.

Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which PNG is subject. Such risks could limit funds available to PNG to enable PNG to satisfy in full and on a timely basis its obligations under the Issuer/PNG Loan and the PNG Guarantee.

PDHL is a special purpose vehicle

The Holdco Guarantor is a special purpose entity with no business operations and its sole assets are the shares that it holds in PNG, together with intra-group loans and distributions received from PNG and retained by the Holdco Guarantor (if any). This means that the Holdco Guarantor has limited funds available to enable it to satisfy in full and on a timely basis its obligations under the Holdco Guarantee.

Limited liquidity of the Bonds; absence of secondary market for the Bonds

Notwithstanding the fact that an application has been made to admit the Bonds to trading on the London Stock Exchange, there is currently no active trading market for the Bonds. There can be no assurance that a secondary market will develop, or, if a secondary market does develop for any of the Bonds, that it will provide the holder of the Bonds with liquidity or that any such liquidity will continue for the life of the Bonds. Consequently, any purchaser of the Bonds must be prepared to hold such Bonds for an indefinite period of time or until final redemption or maturity of the Bonds.

The liquidity and market value at any time of the Bonds is affected by, among other things, the market view of the credit risk of such Bonds and will usually fluctuate with general interest rate fluctuations, overall economic conditions, the condition of certain financial markets, international political events, the performance and financial condition of PNG, developments and trends in the gas industry generally and events in the appointed area of PNG.

Trading in the Clearing Systems - integral multiples of less than £50,000

In relation to any issue of Bonds which have a denomination consisting of the minimum specified denomination of £50,000 (or, where the currency is not Pounds sterling, its equivalent in the currency) plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of £50,000 (or its equivalent) that are not integral multiples of £50,000 (or its equivalent). In such a case, a Bondholder who, as a result of trading such amounts, holds a principal amount of less than such minimum specified denomination will not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more of such specified denominations.

Rating of the Bonds

The ratings on the Bonds address the timely receipt of scheduled interest payments and the ultimate payment of principal on the Bonds in accordance with the Issue Documents. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of PNG and circumstances relating to the gas industry generally.

There is no assurance that any such rating will continue for any period of time or that it will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies (or any of them) as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgment, circumstances so warrant. If any rating assigned to the Bonds is lowered or withdrawn, the market value of the Bonds may be reduced. Future events, including events affecting PNG and/or circumstances relating to the gas industry generally, could have an adverse impact on the ratings of the Bonds.

Change of law

The structure of the transaction and, among other things, the issue of the Bonds and rating assigned to the Bonds are based on law and administrative practice in effect at the date hereof. No assurance can be given that there will not be any change to such law or administrative practice after the Closing Date which change might impact on the Bonds and the expected payments of interest and repayment of principal.

European Monetary Union

Prior to the maturity of the Bonds, the U.K. may become a participating Member State in the Economic and Monetary Union and the euro may become the lawful currency of the U.K.. Adoption of the euro by the U.K. may have the following consequences:

- (i) all amounts payable in respect of the sterling-denominated Bonds may become payable in euro and the Issuer may seek or be required to take additional measures in respect of the Bonds; and
- (ii) the introduction of the euro as the lawful currency of the U.K. may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Bonds or changes in the way those rates are calculated, quoted and published or displayed.

The introduction of the euro could also be accompanied by a volatile interest rate. It cannot be said with certainty what effect, if any, adoption of the euro by the U.K. would have on investors in the Bonds.

The potential costs to PNG of implementing procedures to deal with any possible future adoption of the euro by the U.K. are unclear but could be significant.

Changes in financial reporting standards

Certain provisions of the Transaction Documents contain certain conditions and/or triggers which are based upon an assessment of the financial condition of the Phoenix Financing Group calculated by reference to the financial statements produced in respect of the companies in the Phoenix Financing Group. These financial and other covenants have been set at levels which are based on the current accounting principles, standards, conventions and practices adopted by the relevant companies.

It is possible that any future changes in these accounting principles, standards, conventions and practices which are adopted by the companies in the Phoenix Financing Group may result in significant changes in the reporting of its financial performance (e.g., "FRS26: Financial Instruments: Measurement" and the introduction of International Financial Reporting). This, in turn, may necessitate that the terms of the conditions and triggers referred to above are renegotiated.

Bondholders' rights subject to the Intercreditor Agreement

The Bondholders' rights against the Issuer and the Guarantors are subject to the Intercreditor Agreement, which is described in detail in the section entitled "*Intercreditor, Enforcement and the Senior Facilities*

Agreement". In particular the Bond Trustee's rights to direct the Security Trustee to take any action to enforce its rights against the Issuer and/or the Guarantors following an Event of Default is restricted by the Standstill Period (as defined in the section entitled "*Intercreditor, Enforcement and the Senior Facilities Agreement*"). However, the Standstill Period will be brought to an end by (amongst other things) the occurrence of a "non-payment" event of default or an "insolvency" event of default under a relevant underlying secured credit agreement (including the Senior Facilities Agreement), or if the Majority Secured Creditors (as defined in the section entitled "*Intercreditor, Enforcement and the Senior Facilities Agreement*") vote to end the Standstill Period. On the Closing Date, the Bondholders will constitute the Majority Secured Creditors, but there is no guarantee that this will remain the case. The occurrence of a Standstill Period may materially and adversely affect the exercise and proceeds of any enforcement of the Security created under the Security Agreement. Bondholders should further note that at the end of the Standstill Period (except in the case of a remedying or waiver of the relevant event of default) the liabilities of the Issuer and the Guarantors to the Bondholders will be automatically accelerated, without the need for the Bond Trustee to give a notice of acceleration to the Issuer pursuant to Condition 8 (*Events of Default*).

No security granted by PNG or the Issuer

Neither PNG nor the Issuer are granting any security to the Security Trustee in respect of the Bonds. One result of this is that the Secured Creditors will not be able to block the appointment of an administrator of PNG or the Issuer in the event that another creditor successfully applies for such appointment. The appointment of an administrator of PNG may materially and adversely affect the value of the Security created under the Security Agreement. However, Bondholders should note that PNG and the Issuer have agreed not to grant (subject to certain permitted exceptions) security to any other creditor pursuant to Condition 3 (*Negative Pledge*).

Risks Relating to Taxation

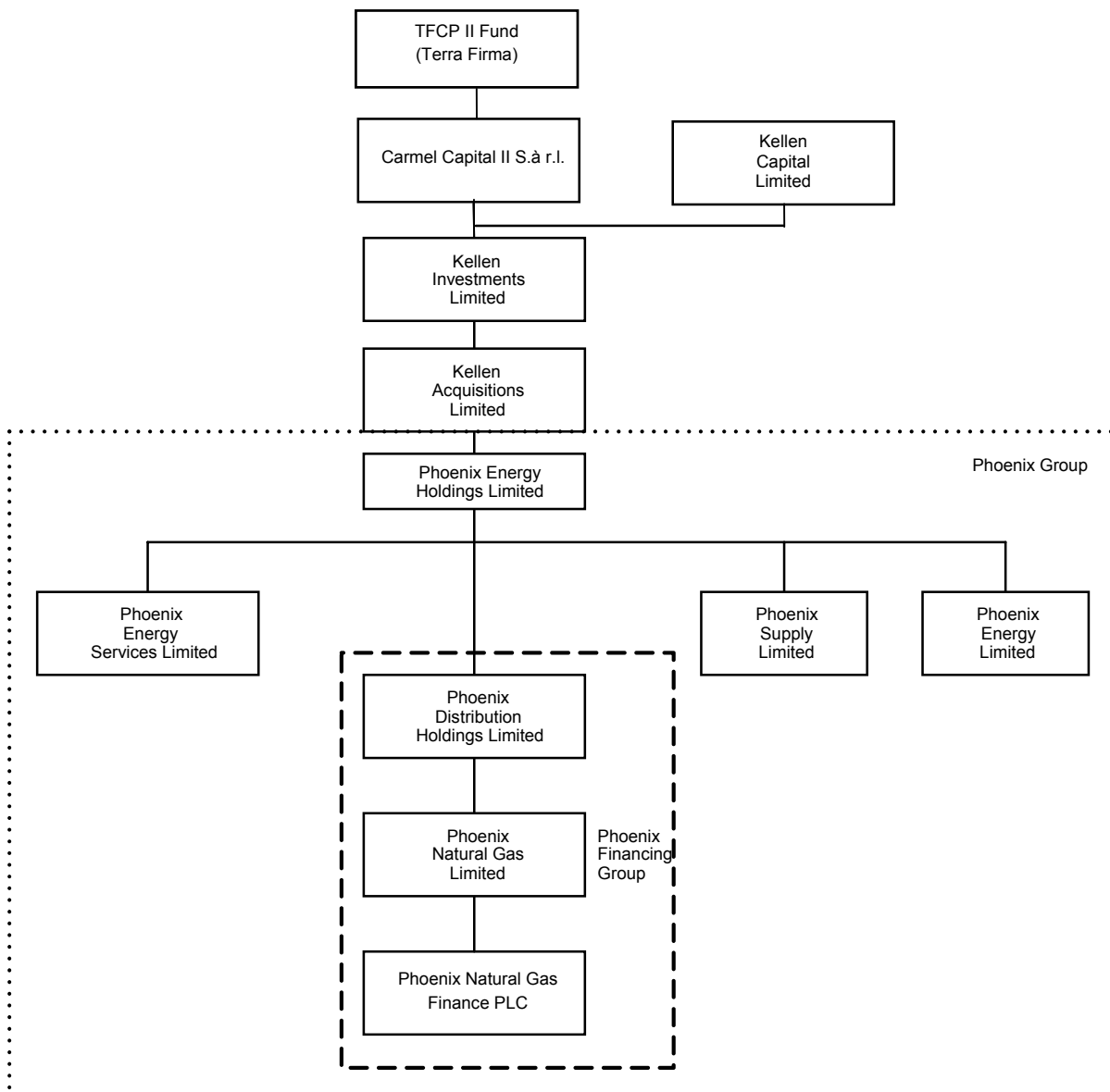
Withholding Tax under the Bonds

In the event withholding taxes are imposed by or on behalf of the U.K. in respect of payments due under the Bonds, the Issuer, PNG or the Holdco Guarantor (as the case may be) will pay such additional amounts as will result (after such deduction or withholding) in receipt by the Bondholders of the amount which would otherwise have been receivable (in the absence of such deduction or withholding), subject to customary exceptions. The Issuer will, in such event, have the option (but not the obligation) of redeeming all outstanding Bonds in full (see "*Terms and Conditions of the Bonds*" and Condition 5(c) (*Redemption for Taxation Reasons*)).

EU Savings Directive

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of third countries and territories, including Switzerland, have adopted similar measures to the Directive.

OVERVIEW OF THE PHOENIX GROUP



The Phoenix Group (the “**Phoenix Group**” or the “**Group**”) comprises Phoenix Energy Holdings Limited (“**PEHL**”), PDHL, PNG, PSL, Phoenix Energy Services Limited (“**PESL**”), Phoenix Energy Limited (“**PEL**”) and the Issuer. This does not include PNG Storage Limited, Phoenix Power Limited, Belfast Energy Limited, Phoenix Gas Limited and Belfast Natural Gas Limited, all of which are dormant subsidiaries of PEHL. PNG, PEL, PSL and PESL are the Phoenix Group operating companies. The principal activities of the Phoenix Group are natural gas supply and distribution in Northern Ireland to the Licensed Area (as defined herein) and the provision of maintenance and appliance servicing to consumers.

The Phoenix Financing Group (the “**Phoenix Financing Group**”) comprises the Issuer, PNG and PDHL.

For a description of the financing arrangements of the Phoenix Financing Group, see “*Overview of the Key Documents*” and “*Intercreditor, Enforcement and the Senior Facilities Agreement*”.

PDHL may, at any time after the Closing Date and subject to the satisfaction of certain conditions set out in the Trust Deed, novate as part of a Permitted Reorganisation (defined below) its role as the Holdco Guarantor to a new guarantor, provided always that (a) PNG is wholly-owned directly and beneficially, by the new guarantor and (b) the Issuer is wholly-owned directly and beneficially by PNG.

DESCRIPTION OF PHOENIX NATURAL GAS FINANCE PLC

The Issuer is a funding vehicle and was incorporated in Northern Ireland on 7 October 2009 as Phoenix Natural Gas Finance PLC under registered number NI600904 as a public company with limited liability under the Companies Act 2006 (as amended).

The Issuer is a wholly-owned subsidiary of PNG. The issued share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each.

The registered office of the Issuer is at 197 Airport Road West, Belfast, BT3 9ED and its contact telephone number is 02890 555595.

Directors and Company Secretary of the Issuer

The Directors of the Issuer are Peter Dixon, Michael McKinstry, Ivan Bell and Alastair Pollock.

The Company Secretary of the Issuer is Michael McKinstry.

There are no actual or potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or duties.

Activities of the Issuer

The principal activity of the Issuer is to raise funds to support the long-term debt financing requirements of PNG. Consequently, the Issuer has no employees nor does it own any physical assets. Administrative and treasury functions are conducted on its behalf by PNG. As at the date of this Prospectus, the Issuer has not since its incorporation engaged in any material activities or commenced its operations (other than activities associated with its incorporation). The Issuer will issue the Bonds on the Closing Date and enter into any other documents incidental to the issue of the Bonds.

The Issuer is empowered under its articles of association to enter into the Issue Documents to which it is a party, including, without limitation, the Trust Deed and the Paying Agency Agreement, and its Directors have authority under the Issuer's articles of association to exercise that power on its behalf. The Issuer has not prepared any audited financial statements as at the date of this Prospectus.

Organisational structure and shareholding

The Issuer is 100 per cent. owned by PNG and has no subsidiaries.

DESCRIPTION OF PHOENIX NATURAL GAS LIMITED

History and Background

British Gas plc (“**British Gas**”) acquired Ballylumford Power Station at Larne, County Antrim in 1992 and in 1996 converted it from oil to natural gas-fired, with gas being transmitted via the Scotland to Northern Ireland Pipeline (“**SNIP**”) owned by Premier Transmission Limited, then a wholly-owned subsidiary of British Gas. In 1996, British Gas established a downstream gas business (“**Phoenix**”), which was granted a combined licence for the conveyance and supply of gas in the Licensed Area by the Department of Economic Development (now the Department of Enterprise, Trade and Investment) (“**DETI**”) on 5 September 1996. The conveyance part of the licence allowed Phoenix to construct and operate both a transmission and distribution network in Northern Ireland and the supply part of the licence allowed Phoenix to supply gas from that network.

In February 1997, KeySpan Corporation, a U.S. based gas and electric company, acquired a 24.5 per cent. interest in Phoenix from British Gas, which by then had demerged to become BG plc (“**BG**”), and in March 2001, U.K. gas and utility company East Surrey Holdings plc (“**ESH**”) acquired a 24.5 per cent. interest in Phoenix from BG. In December 2003, ESH bought out the other shareholders, BG and KeySpan Corporation, to become the sole owner of Phoenix. Kellen Acquisitions Limited (“**KAL**”), a wholly-owned subsidiary of Kellen Investments Limited (“**Kellen**”) (which is a vehicle wholly-owned and controlled by a fund advised by Terra Firma Capital Partners Limited), acquired ESH in November 2005 (the “**Kellen Group**”).

The non-Phoenix assets of ESH (being Sutton and East Surrey Water plc and East Surrey Pipelines) were disposed of by Kellen in 2006. In line with the requirements of the Second EU Gas Directive 2003/55/EC, Phoenix legally separated its gas supply division from its transmission and distribution business on 1 January 2007. The supply business, PSL, was granted a new licence by DETI to supply gas on 19 December 2006. On 1 January 2008, Phoenix completed the separation of its distribution business from its transmission business, transferring the distribution business to an existing dormant subsidiary, Phoenix Distribution (Northern Ireland) Limited (later renamed Phoenix Natural Gas Limited), and on 31 March 2008 Phoenix completed the sale of its transmission assets to Northern Ireland Energy Holdings.

Phoenix Distribution (Northern Ireland) Limited, originally called Belfast Gas Limited and incorporated on 11 August 1997 under the Companies (Northern Ireland) Order 1986, was renamed Phoenix Natural Gas Limited (“**PNG**”) on 24 September 2008. The supply and transmission parts of the original combined Phoenix licence now held by PNG have been revoked by DETI and all references to supply and transmission activities have been deleted from the licence.

Business Overview

PNG is the largest gas distribution business in Northern Ireland and holds a licence to distribute gas in Northern Ireland within the Licensed Area (the “**Licence**”). See “*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence*”.

PNG’s main business activities as a gas distribution business include:

- building, owning, operating and maintaining the Phoenix gas distribution system (the “**Phoenix Network**”);
- developing the natural gas market in the Licensed Area through marketing natural gas and connecting new premises; and
- providing an operational and transportation service platform to gas suppliers under the rules of the PNG Distribution Code. See “*Regulation of PNG and the Gas Industry in Northern Ireland — PNG Distribution Code*”.

Regulation

PNG's distribution business is regulated under the Licence by the Northern Ireland Authority for Utility Regulation (the "NIAUR"). The NIAUR is responsible for regulating the electricity and gas industries as well as water and sewerage services in Northern Ireland. The main duty of the NIAUR's Gas Directorate (the team with responsibility for gas within the NIAUR) is to promote the development and maintenance of an economic, efficient and co-ordinated gas industry as well as protecting the interests of gas consumers with regard to price and quality of service. See "*Regulation of PNG and the Gas Industry in Northern Ireland – Regulatory Framework*".

Licensed Area

Under the terms of the Licence, PNG is authorised to conduct its gas distribution business within an area covering approximately 40 per cent. of the population of Northern Ireland: Greater Belfast (comprising Belfast, Newtownabbey, Carrickfergus, Lisburn and North Down) and Larne (the "Licensed Area"). Since the Licence was first issued on 5 September 1996, PNG's Licensed Area has been extended to include Comber (in 2007) and specific larger customers on the periphery of the Licensed Area (e.g. Temple and Whitemountain Quarries).

The Licensed Area is shown on the map below:



As at 31 July 2009, PNG had made gas available (in accordance with the terms of its Licence) to 271,102 properties within its Licensed Area, of which 126,604 (47 per cent.) have been connected to the Phoenix Network. The number of properties within the Licensed Area passed as at 31 July 2009 are shown in the table below:

Town	Domestic properties passed	Industrial & commercial properties passed
Belfast*	158,285	11,680
Lisburn	14,058	1,245
Newtownabbey	24,481	1,235

North Down**	39,631	2,711
Carrickfergus	10,927	567
Larne	5,717	565
Total Licensed Area	253,099	18,003

Notes:

* “Belfast” includes Duncrue, Harbour, Carryduff and Castlereagh.

** “North Down” includes Bangor, Newtownards, Holywood, Donaghadee and Comber.

Customer Overview

As at 31 July 2009, 126,604 customers had been connected to the Phoenix Network, with customers broadly categorised as either domestic customers or industrial and commercial (“I&C”) customers and classified as one of four distribution categories (P1 to P4) depending on the forecast annual quantity of gas consumed. These customers are supplied by either PSL or by competing third party supply businesses. These supply businesses are liable to pay the connection and distribution charges set by PNG, which they then pass on to the final customer.

Domestic customers are normally classified by PNG as P1 volumes (which is specified in the Licence as having a gas consumption of up to 2,500 therms per annum (“tpa”)) and are subdivided into the following categories:

- owner occupied (“OO”) – existing housing stock not in ownership of the local public housing authority, including private rented properties (where conversion from another energy source is required);
- Northern Ireland Housing Executive (“NIHE”) — housing stock under the ownership of the local public housing authority (where conversion from another energy source is required); and
- new build – newly-built housing stock (where no conversion from another energy source is required).

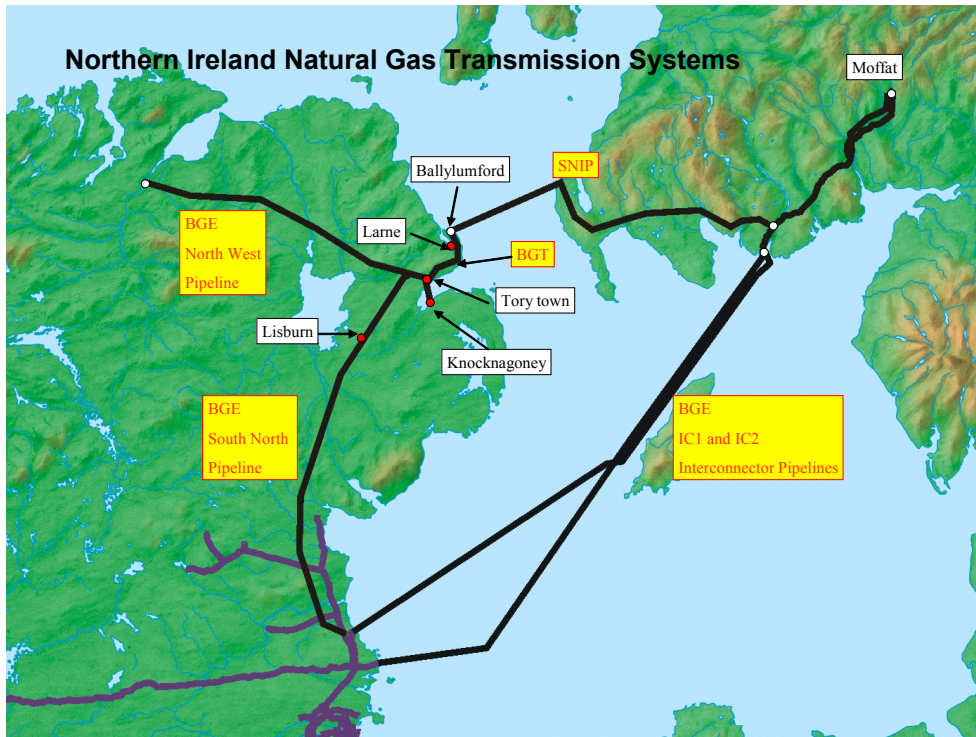
I&C customers are divided and priced between:

- small I&C tariff customers – gas consumption of up to 2,500 tpa (P1);
- large I&C tariff customers – gas consumption of 2,500 to 25,000 tpa (P2);
- small & large firm I&C contract customers – gas consumption of greater than 25,000 tpa (P3); and
- interruptible I&C contract customers – gas consumption greater than 75,000 tpa (P4).

Interruptible customers are those whose supply of natural gas can be interrupted by PNG for PNG’s operational reasons.

Tariff customers tend to be priced on an annual published tariff basis whilst prices for contract customers tend to be individually negotiated with the relevant customer’s supplier.

The Phoenix Network



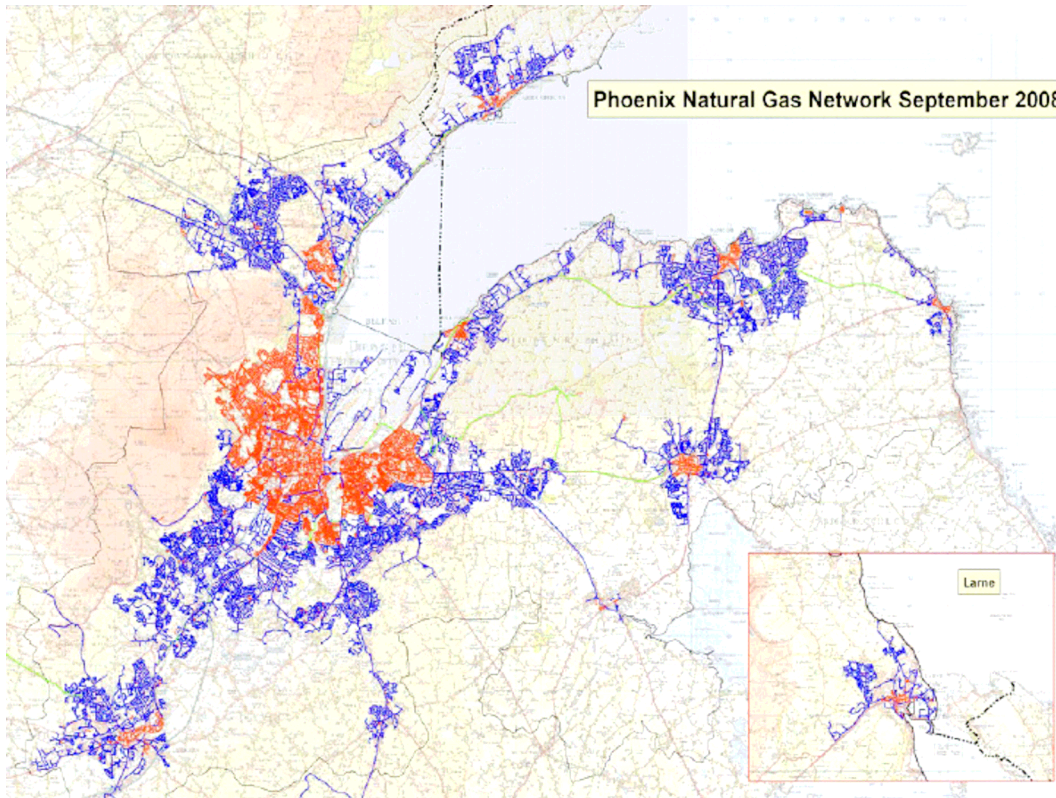
As shown in the diagram above, transmission of gas to the Phoenix Network originates from Moffat (National Grid's National Transmission System exit point), Scotland via SNIP to Ballylumford Power Station, 30 kilometres north of the Greater Belfast area. Transmission from Ballylumford to Belfast is conducted via the Belfast Gas Transmission Pipeline ("BGT") (previously owned by PNG but, since 2008, owned by Northern Ireland Energy Holdings) to three High Pressure Reduction Stations ("HPRSs") at Larne, Tory Town and Knocknagoney on the outskirts of Belfast. Further transmission reinforcement is now provided through connection to Bord Gáis Eireann's ("BGE") South-North Pipeline, which connects to the Phoenix Network through an HPRS near Lisburn, and to the BGE North-West Pipeline, which in turn connects to the BGT near Tory Town.

The SNIP and BGT pipelines have operated since inception in 1996 with 100 per cent. availability and no physical failures being experienced. The Licensed Area is not solely reliant upon the transmission from these pipelines, as the Inter Connector System pipelines added from Twynholm, Scotland to Gormanston, Republic of Ireland provide an alternative source of gas transmission supply to the Greater Belfast Licensed Area in the event of disruption to the BGE South-North Pipeline. Both transmission networks provide Northern Ireland with connections to the wider mainland U.K. and European/Russian gas markets.

Currently, the BGE North-West and South-North pipelines have their own network codes to SNIP and BGT (see "*Regulation of PNG and the Gas Industry in Northern Ireland — PNG Distribution Code*" below). Although the pipeline operators use their own network codes, all key areas for gas transportation within the codes are the same and any proposed modification to any code requires consideration and consultation between all transmission operators.

Development of the Phoenix Network

As at 31 July 2009, the Phoenix Network extends to 2,976 kilometres of intermediate (up to 7bar pressure), medium (above 75mbar pressure) and low pressure (75mbar and below) mains, which distribute natural gas to 271,102 properties within the Licensed Area.



Development of the Phoenix Network is driven by PNG's obligation under the Licence to make gas available (i.e. to pass properties with a gas main to which connection can be made) to a high proportion of the population within the Licensed Area (see "*Associated Activities*"). Initial development of each part of the Phoenix Network centred on constructing large diameter ring mains to take gas around the Licensed Area, particularly where large potential users existed and could be connected to the gas network quickly. This was followed by construction of smaller diameter feeder mains to connect industrial and new build sites where initial utilisation of gas would be greatest (provided the feeder mains were available when the relevant site was being developed).

At the same time, PNG was also required by the Licence to make gas available to existing domestic energy users through the construction of infill mains (i.e. gas pipelines to which domestic customers can be directly connected) in individual streets. This enabled gas connections to (i) NIHE properties as they were refurbished and existing fuel supplies were replaced with gas as part of the NIHE refurbishment programme and (ii) individual private OO customers. PNG has developed a marketing plan which has the intention of increasing penetration of this key market.

PNG's development of the market in the early years focused mostly on the I&C sector, where greatest volume of gas was consumed per customer. As a result, by 2008, 59 per cent. of PNG's annual gas volume was consumed by this sector. See the table set out in "*Licensed Area*" above for a breakdown of the number of domestic and I&C properties passed with a connectable gas main.

Current network development is focused on extending the Phoenix Network to take gas to new private residential and I&C developments and on completing over the next three years the development of existing private residential areas where there is expected to be greatest demand for gas. Otherwise, network development is focused on increasing the penetration of customers connected to the Phoenix Network in areas where the mains has already been constructed.

Operation and maintenance of the Phoenix Network

Operation and maintenance of the Phoenix Network is managed in line with the principles of PAS 55 (the British Standards Institution's "Publicly Available Specification" for the optimised management of physical assets and infrastructure) and monitored and controlled via a 24-hour manned system control operation.

PNG seeks to comply with manufacturers' recommendations and to meet the requirements of the Pressure System Safety Regulations 2000 in carrying out its maintenance activities.

Associated Activities

In addition to owning and operating the gas distribution network, PNG is required under the Licence to carry out certain associated activities, including:

- installing and disconnecting gas meters;
- establishing and maintaining a 24-hour emergency service and attending to gas leaks as soon as is reasonably practicable, and taking all necessary steps to prevent an escape of gas within 12 hours of receiving a report; and
- installing and bringing into operation distribution pipelines so that not less than 90 per cent. of the cumulative annual total number of premises (excluding Larne) in the Licensed Area may be readily connected to the Phoenix Network by 31 December 2008 (which is deemed satisfied if 90 per cent. of this target is achieved). This requirement has already been met by PNG.

See "*Regulation of PNG and the Gas Industry in Northern Ireland — The Licence*".

PESL currently provides a number of these services under a services contract dated October 2007, including the installation, disconnection and maintenance of customer meters and the provision of the initial 24/7 emergency response to PNG's customers, under agreement with PNG. PESL also utilises other local providers to supplement the workforce providing these services to PNG from time to time.

McNicholas Construction Services Limited ("**McNicholas**"), an independent contractor and established U.K. construction services company, provides PNG with upstream maintenance and emergency response services.

Other service providers operate in the Licensed Area and may be able to provide replacement services in the event of a business failure of either McNicholas or PESL. Alternatively, PNG could seek to employ the relevant resources directly.

Price Control

Like similar utilities within the U.K., PNG is subject to a price control review from its regulator, the NIAUR, every 5 years. The methodology for determining the level of revenue which PNG may receive is set out in the price control conditions contained in the Licence. The price control currently resets the prices PNG can charge as part of its price control every 5 years by reviewing forecast costs and volumes for the following 40 years. The price control review process is set out in Condition 2.3 of the Licence along with the formulae and charging methodology and price controls have been set taking account of, among other things, Depreciated Asset Value, capex, depreciation and a Profile Adjustment mechanism by which recovery of costs are deferred for up to 40 years. See "*Regulation of PNG and the Gas Industry in Northern Ireland — Regulated Asset Value ("RAV") Based Regulation*".

The current price controls are applicable for the period from 1 January 2007 to 31 December 2011. The next price control review is scheduled for late 2010. The revenue (real) for this period (i.e. up to the end of 2011) has been determined and the methodology for calculating the connections incentive has been agreed, therefore providing increased regulatory certainty for the short- to medium-term. The final methodology for calculating any retrospective adjustments within the price control determination is currently being detailed, although the principles have been agreed (see "*Regulation of PNG and the Gas Industry in Northern Ireland — Overview*").

Operational Overview

Operational performance

The operational performance of PNG for the 3 years ended 31 December 2006, 31 December 2007 and 31 December 2008 is shown in the table below:

£m (unless otherwise specified)	2008	2007	2006
Cumulative connections (in 000s).....	122.6	114.7	103.8
Penetration Rates	46%	44%	42%
Transported volumes (in m therms)	113.4	103.2	104.3
Turnover	34.0	29.7	25.5
Operating costs (excl depn).....	-10.7	-12.2	-11.9
EBITDA	23.3	17.5	13.6
EBITDA margin	69%	59%	53%
Capex	-10.7	-12.5	-13.0
Free Cash Flow (FCF) before financing	12.6	5.0	0.6
FCF margin	37%	17%	2%
Closing nominal TRV	380.4	344.2	312.8

Source: PNG regulatory accounts for 2006 to 2008, PC03 determination (Actual RPI).

Notes:

- (1) 2007 excludes £3.8m exceptional item related to receipt of tax debtor from British Gas.
- (2) 2007 and 2008 represent first full years of operating within the new 40 year price control regime.
- (3) As 2006 is not part of the current price control period, comparisons are not directly equivalent.
- (4) FCF (Free Cash Flow) excludes working capital as it is treated as pass through retrospective adjustment/immaterial.

Key results and drivers of PNG's operational performance include the following:

- customer connection penetration rates have increased steadily at 2 per cent. each year over the last 3 years;
- turnover in 2008 increased by approximately 14 per cent. compared to 2007 as a result of:
 - an 8 per cent. per annum growth in connection rates and distribution volumes that were forecast within the price control; and
 - distribution volume in 2007 was lower than forecast when setting distribution prices, which resulted in an under-recovery of income in 2007 compared to that allowed within the price control. However, in 2008 actual volumes were higher than expected when setting the distribution charges, thereby resulting in an over-recovery in income compared to that allowed within the price control. Consequently, actual income was £0.3m lower than allowed in the price control in 2007 but £0.9m higher than the allowed level in 2008. As a result, £0.6m of over-recovery was carried forward into 2009 to be adjusted in future charges;
- operating expenditure decreased in both nominal and real terms in 2008 on the back of operating cost initiatives (including headcount reductions) introduced to deliver and achieve price control targets over the 5-year period of the price control;

- capital expenditure fell in 2008 as a result of lower levels of mains extension and connections compared to that undertaken in 2007, whilst unit rates fell slightly in real terms due to efficiency initiatives; and
- free cash flow before financing costs improved in 2008 compared to previous years due to the inherent degree of operating leverage of the business, the reversal of under-recovered revenue from 2007 and greater than forecast revenue generated in 2008.

Operating statistics for 2008

PNG's transported volume has increased annually from 104.3 mt in 2006 to 113.7 mt in 2008 mainly as a result of a growth in numbers of customers connected. Volumes in 2007 of 103.2 mt were lower than normal due to temperatures being warmer than average whilst 2008 benefitted from temperatures being colder than average.

The temperature effect also influenced peak day statistics, with the peak day of 16.9 GWH recorded on 9 January 2008 being similar to that recorded in 2006. However, the average temperature associated to these peak days was 4 degrees centigrade in 2008 and 0.6 degrees centigrade in 2006. However, since year end a new peak day has been recorded on 5 February 2009 of 18.3 GWH, with the relative average temperature recorded being 0.8 degrees centigrade.

No interruptions to the distribution of gas due to capacity constraints on the Phoenix Network occurred throughout the years 2006 to 2008.

In 2008 PNG constructed a further 60 kilometres of mains compared to 80 kilometres in 2007 and 62 kilometres in 2006. Mains laid in 2007 were impacted by reinforcement of distribution mains from Lisburn to BGE's South North transmission pipeline.

New connections to the Phoenix Network were 7,900 in 2008 compared to 10,902 in 2007 and 10,593 in 2006. Connections in 2008 were impacted by a decrease in new build connections as the number of houses completed in the Licence Area fell and there was a decrease in the number of new NIHE connections as the end of their refurbishment programme was reached.

Engineering

The overall engineering and planning of the Phoenix Network is undertaken by PNG's employee engineering teams. However, installation and maintenance of mains are sub-contracted to a locally-based company owned by McNicholas. McNicholas was awarded this contract in July 2006 based on relevant skills, experience and price after an extensive tendering process advertised in the EU Journal. McNicholas provides similar services to other utility companies within the U.K. and Ireland. This contract operates through "Alliance" contracting principles, with a joint management approach being established through operations alongside PNG management and operating teams within the same location.

Downstream gas installation work (i.e. work downstream of the meter) in the residential and commercial property sectors is undertaken for the customer by independent third party gas installers. There are currently approximately 200 independent installers in the Licensed Area able to provide such services. PNG maintains a list of qualified installers to undertake this work and regularly reviews the level of service provided to ensure a minimum level of service is maintained. PNG will, if requested, also organise visits by installers to provide quotations to support the customer getting the downstream installation work progressed. This strategy is intended to benefit the end consumer in terms of cost and quality of downstream installation work.

Performance Management

PNG uses a number of key measures of operational and financial performance to plan and monitor its business activities which are principally focused on the safe and efficient operation of the Phoenix Network. Measures of operational performance include:

- operating statistics – gas escapes, operational capacity interruptions and transportation volumes;
- health and safety – injuries, near misses and ill health;
- environment – waste disposal, energy usage and use of natural resources;
- the achievement of service levels and the minimisation of complaints;
- the achievement of capital and replacement programme targets and cost efficiency;
- the reliability and integrity of the gas distribution network;
- the number of new customers connected within each market sector; and
- other customer facing quality of service measures.

Contractor performance is measured in the same way as for direct employees.

The reliability of the Phoenix Network is monitored in a number of ways, including the number and duration of interruptions to consumers' gas supplies.

Risk Management

PNG has a comprehensive risk management process in place designed to enable the achievement of business objectives while controlling the risks associated with the environment within which it operates. The key business risks are:

- operational;
- regulatory;
- reliance on supplier income and prepayments;
- compliance with environmental and health and safety legislation; and
- reliance on skilled employees.

For a further description of these risks, see "*Risk Factors*".

Risks are reviewed by the Board of Directors of PNG and senior management and it is PNG's policy that appropriate processes are put in place to monitor and mitigate them.

PNG operates a programme of reviewing its network integrity and security of supply. In addition, BSI, Advantica and Wilcocks Consultants undertake an ongoing programme of audits for PNG, which have not identified any major findings or deficiencies in PNG's gas operations.

Information Technology (IT)

PNG provides a centralised IT department to the whole Phoenix Group with responsibility for developing and maintaining computing services using third party providers under commercial contracts as required. The current systems and management of IT for the distribution and supply businesses have been developed with the intention that they could be separated if necessary for regulatory or other reasons as required.

Insurance

PNG maintains comprehensive insurance coverage that it considers to be consistent with good industry practice in Great Britain's regulated gas transportation industry having regard to the risk being covered.

Financial Risk Management

PNG's operations bring exposure to a variety of financial risks, including the effects of changes in liquidity and interest rates (see "*Risk Factors — Financial and Operational Risks*").

The Board of Directors of Kellen exercises financial and management accounting controls through the consolidation of all financial and treasury requirements within a centralised Group finance function within PNG. PNG has in place a risk management programme that seeks to limit the adverse effects on the financial performance of PNG by tracking performance each month against budget, considering implications against annual budgets through revised forecasts and implications against longer-term business plans. By doing so, the financial requirements of PNG can be monitored against the cash resources available to it.

Medium term banking facilities are available to PNG in order to provide additional funding for operational requirements. For a description of the facilities, see “*Overview of the Key Documents*”.

PNG may in future enter into interest rate swaps in order to hedge against interest rate movements and consequential changes in the London interbank offered rate of major banks for deposits. PNG does not use derivative financial instruments for speculative purposes.

Credit Risk

PNG is exposed to credit risk arising mainly from the risk that suppliers are unable to pay distribution charges as they fall due. This risk is partially mitigated by the requirement for all suppliers to comply with credit arrangements within the PNG Distribution Code to evidence their ability to pay distribution charges to PNG, thereby reducing the risk of payment default by a supplier.

Social and environmental activities

PNG was recognised for its contribution to the environment by being awarded first quintile position in the prestigious Arena Network Annual Environmental Awards in 2008 and the company’s ongoing operational procedures in the areas of environmental performance and Occupational Health and Safety were recognised by successfully retaining accreditations of ISO14001 and 18001.

Health and safety

PNG believes that it has met all its published standards for customer service, as agreed with the NIAUR, and exceeded targets in key areas of connecting new customers and attending public reported escapes.

Together with the strategic support of British Safety Council audits and ISO accreditations, health and safety management forms a key and integral part of PNG’s business. The “ASHES system”, which is part of PNG’s safety management system, is designed to ensure that all employees understand the policies and procedures in place to deliver a safe operating environment. PNG also has a dedicated Safety Manager who seeks to control health and safety performance throughout the Group. The “ASHES system” is accredited to ISO18001 and, in 2008, the Group received the prestigious British Safety Council Sword of Honour, widely regarded as a pinnacle of safety achievement, for a second time.

As at 31 December 2008, the amount of working man hours lost to PNG due to injury for the year was 2.34 per 1,000,000 and 315 days had passed since working man hours were lost due to injury. There was one occurrence of lost time due to injury to direct labour during the year ended 31 December 2008.

Employment

PNG is committed to a proactive approach in promoting equality of opportunity. PNG seeks to ensure that it operates fairly and equitably in its dealings with employees and prospective employees and is opposed to all forms of unlawful and unfair discrimination. PNG’s personnel policies, practices and procedures are designed to ensure that employment, training and promotion opportunities within the company provide employment equality to all, irrespective of:

- gender, marital or family status;
- religious belief or political opinion;

- disability;
- nationality, race or ethnic origin;
- sexual orientation; and
- age.

Training and development

PNG undertakes a comprehensive programme of training and development for its staff to ensure they have adequate skills to perform their duties.

Shareholders

PNG is a wholly-owned subsidiary of PDHL. Kellen (a subsidiary of Carmel) is the parent company of the group of companies which PDHL, PNG and the Issuer are members of and for which group accounts will be drawn up. The authorised share capital of PNG is £100,000 divided in 100,000 ordinary shares of £1 each and it has an issued share capital of 2 ordinary shares of £1 each.

Directors of PNG and Corporate Governance

Directors of PNG

Name	Function	Principal Outside Activities
Peter Dixon	Group Chief Executive	Chairman, Energy for Children Charitable Trust Chairman and board member, Arena Network Belfast Harbour Commissioner
Michael McKinstry	Group Finance Director	Trustee, Energy for Children Charitable Trust
Alastair Pollock	Retail Operations Director	Trustee, Energy for Children Charitable Trust
Ivan Bell	Commercial Operations Director	Non Executive Director, Energy & Utility Skills

The business address of the directors is 197 Airport Road West, Belfast BT3 9ED.

Directors' interests

There are no conflicts of interest between any duties of the Directors and the Directors' private interests or other duties.

Board of Directors

Peter Dixon – Group Chief Executive

Peter has over 33 years' gas experience. He started out as an engineer in 1976 with North West Gas and went on to play a key role in the breakup of what was then the old British Gas. Peter joined PNG as Commercial Director in February 1997 and was appointed Chief Executive in July 2000. He is currently Chairman of the Energy for Children Charitable Trust, as well as Chairman of Arena Network - the environmental arm of Business in the Community of which he is also a board member. In 2008 he was appointed as a Belfast Harbour Commissioner.

Michael McKinstry – Group Finance Director

Michael has been with PNG since its inception in 1996 as Finance Director. He took his place on the Group Board in January 2006 following the acquisition of Phoenix by Kellen. Michael has a comprehensive knowledge and understanding of the Phoenix business as he has been involved in the financial aspects of the development of the Group's ownership, corporate, financial and regulatory structures. Prior to joining PNG, Michael gained extensive financial management experience across a broad range of business sectors, starting in heavy engineering with GEC, in the textiles industry with Ulster Weavers and in the energy industry with Premier Power following its purchase by British Gas.

Alastair Pollock – Retail Operations Director

Alastair has spent 12 years of his career working in the retail market. He spent 8 years in the oil business in England, Scotland and Northern Ireland and gained experience in sales, strategic planning, network development and organisational change. In 1996 he was appointed Managing Director of Kwik-Fit Ireland and joined PNG during November 2000. Alastair has responsibility for all aspects of Sales Operations, including Housing Executive, New Build Homes, and Owner Occupied Properties. He also has responsibility for Commercial Sales, Trade & Industry Development, Marketing, Corporate Affairs and Customer Service.

Ivan Bell – Commercial Operations Director

Ivan is a chartered engineer and Fellow of the Institution of Gas Engineers and Managers. He spent 8 years involved in various aspects of the natural gas industry in Great Britain. In 1998, he was appointed Transportation Development Manager for PNG, before taking on the position of Commercial Manager in November 1999. Ivan is Commercial Operations Director, responsible for the Construction, Operation and Maintenance of the Gas Distribution and Transmission Pipeline Network, the provision of additional Customer Connections and the delivery of PNG's Health, Safety and Environmental policy - including the emergency services operation and Network Design and Planning. He also has responsibility for regulatory matters since April 2008 and providing transportation services to all gas supply companies and end users.

Registered Office and Company Secretary

The registered office of PNG is 197 Airport Road West, Belfast BT3 9ED.

The Company Secretary of PNG is Michael McKinstry.

DESCRIPTION OF PHOENIX DISTRIBUTION HOLDINGS LIMITED

PDHL was incorporated in England and Wales on 17 December 2007 as a private limited company with registered number 06455596. The registered office of PDHL is 5 New Street Square, London EC4A 3TW.

PDHL is a wholly-owned subsidiary of PEHL. The authorised share capital of PDHL is £100,000 divided into 100,000 ordinary shares of £1 each and it has an issued share capital of £3 divided into 3 shares of £1 each.¹

Directors and Company Secretary of PDHL

The Directors of PDHL are Peter Dixon and Michael McKinstry.

The Company Secretary of PDHL is Michael McKinstry.

There are no actual or potential conflicts of interest between the duties to PDHL of the persons listed above and their private interests or duties.

Activities of PDHL

PDHL was established as a holding company of PNG. Consequently, PDHL has no employees nor does it own any assets other than the shares it holds in PNG and intra-group loans. Administration and treasury functions are conducted on its behalf by PNG.

¹ This information corrects and supersedes the issued share capital of PDHL as stated in Appendix B (*Independent Auditors' Report and Financial Statements of PDHL*).

REGULATION OF PNG AND THE GAS INDUSTRY IN NORTHERN IRELAND

Overview

The conveyance of gas in Northern Ireland, including PNG's business activities as a gas distribution business, is the subject of the licensing and regulatory regime of the NIAUR and DETI. The mechanism for regulation of PNG's activities is principally derived from the Licence, the Gas (Northern Ireland) Order 1996 (the "**Gas Order**") and the Energy (Northern Ireland) Order 2003 (the "**Energy Order**").

PNG is also regulated by the HSE(NI) in respect of matters of health and safety, principally pursuant to the Health and Safety at Work (Northern Ireland) Order 1978 and the Gas Safety (Management) Regulations (Northern Ireland) 1997. See "*Health and Safety Regulation*" below.

PNG has a normal working relationship with the NIAUR and DETI and works closely with both authorities to develop and agree modifications to its Licence where it is deemed necessary to do so. In 2006, PNG and the NIAUR reached agreement on revisions to its formulae to facilitate changes to the long-term recovery of the network investment through an extended Licence recovery period. Due to the timing of this agreement, the Licence modifications required to facilitate these changes had to be finalised during the current price control. The Licence modifications have now been substantially agreed and revenues (real) for the period commencing 1 January 2007 to 31 December 2011 have been determined, with the methodology for calculating the connections incentive now agreed. This mechanism replaces the previous volume incentive, thereby providing greater regulatory certainty for the short- to medium-term. Whilst the methodology for calculating any retrospective adjustments within the price control determination is currently being finalised, given that the principles have already been agreed, the matters still being finalised are not expected to be materially adverse to PNG.

Regulatory Framework

The gas industry in Northern Ireland is regulated principally by the Gas Order and its regulations, the conditions of the licences granted by DETI and the Energy Order. In addition to the regulatory regime introduced by the Gas Order and the Energy Order, the gas industry in Northern Ireland is subject to, amongst other things, U.K. and EU legislation relating to the environment, competition and the development of the EU single market.

The NIAUR and DETI

The principal objective of DETI and the NIAUR in carrying out their respective functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. These functions are to be carried out having regard to the need to ensure a high level of protection of the interests of gas consumers, to secure that licence holders are able to finance their regulated activities, to secure that distribution charges are in accordance with a common (postalised) tariff that does not distinguish between different parts of Northern Ireland and to protect the interests of licence holders in respect of the prices and other terms on which any services are provided by other licence holders.

In addition, DETI and the NIAUR must have regard to the interests of the disabled and chronically sick, individuals of pensionable age or on low incomes and the interests of electricity consumers. They must also act in a manner calculated to promote the efficient use of gas, protect the public from danger arising from the conveyance, storage or supply of gas, secure a diverse, viable and environmentally sustainable long-term energy supply and facilitate competition within the gas sector, in all cases having regard to the effect of such activities on the environment.

In addition, in carrying out their respective functions, DETI and the NIAUR must not discriminate between persons involved in the conveyance, storage or supply of gas.

Specific functions of DETI include licensing (and granting the main functions to the NIAUR) and those of the NIAUR include the general supervision and enforcement of the licensing regime.

The Gas Order

The Gas Order makes it an offence to carry out certain activities in the gas sector unless licensed or exempt from the requirement for a licence. DETI, after consultation with the NIAUR, or the NIAUR with the consent of DETI (or under a general authority from DETI), can grant licences authorising the following activities:

- gas conveyance (the transportation and/or distribution of gas from one place to another (including through any part of an interconnector situated in Northern Ireland));
- gas supply (to specified persons or premises); and
- gas storage (in specified gas storage facilities).

DETI, after consultation with the NIAUR, or the NIAUR with the consent of DETI (or under a general authority from DETI), may:

- extend a licence by increasing the area authorised by the licence;
- extend a storage licence by adding to the specified gas storage facilities; and
- extend a supply licence by adding to the specified persons or premises.

The Energy Order

The Energy Order provided for the establishment of the NIAUR (then referred to as the Northern Ireland Authority for Energy Regulation) and for it to take over functions previously exercised by the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland.

The Energy Order also sets out the objectives of the NIAUR and DETI in relation to regulation of electricity and gas in Northern Ireland, the functions of the Consumer Council for Northern Ireland (“CCNI”) and provisions relating to licences (including gas distribution licences).

In addition, the Energy Order contains provisions which allow the NIAUR to enforce licences through the issuing of provisional or final enforcement orders (breach of which may lead to court action brought by the NIAUR or any affected party and/or may be grounds for termination of the licence) and through the imposition of financial penalties of up to a maximum of 10 per cent. of the licence holder’s relevant turnover.

The Gas (Applications for Licences and Extensions) Regulations (Northern Ireland) 1996

The Gas (Applications for Licences and Extensions) Regulations (Northern Ireland) 1996 set out the manner and the form in which an application for a gas licence or an extension to an existing licence should be made and the information that an application must contain so that the NIAUR can consider the application.

Gas Directive 2003/55/EC

Gas Directive 2003/55/EC places certain obligations on DETI and the NIAUR, who are responsible for authorisation or approval for the construction or operation of natural gas facilities, or for the transmission, distribution, supply and storage of natural gas. Gas Directive 2003/55/EC was transposed in Northern Ireland by the Gas Order 1996 (Amendment) Regulations (Northern Ireland) 2006, which came into operation on 1 October 2006.

The Licence

PNG operates its gas conveyance business under the Licence, which came into force on 5 September 1996 (see “*Description of Phoenix Natural Gas Limited – History and Background*”). The Licence contains a number of conditions which PNG must comply with when carrying on its gas conveyance business. The

Licence also sets out the methodology which PNG must apply when setting its charges for the conveyance of gas through the Phoenix Network, the purpose of which is to ensure the revenues which PNG may derive from its gas conveyance business do not exceed the maximum allowed amount in any year (known as the “**price control**”) (see “*Description of Phoenix Natural Gas Limited – Price Control*”).

The Licence also requires PNG to, amongst other things, conduct its gas conveyance business in the manner best calculated to secure that neither any affiliate or related undertaking (or any other licence holder or exemption holder) obtains any unfair commercial advantage in any business in the storage or supply of gas including, in particular, any such advantage from a preferential or discriminatory arrangement. Accordingly, PNG is subject to restrictions on the disclosure of information to its affiliates and related undertakings which relate to its gas conveyance business.

The principal conditions of the Licence and the circumstances in which the Licence may be modified, terminated or revoked by DETI are summarised below:

Principal conditions

PNG’s Licence includes requirements of PNG to:

- continue to develop the Phoenix Network in the Licensed Area;
- prepare on an annual basis, audited regulatory accounts (conforming to accounting standards which are generally accepted in the U.K. and approved by the Accounting Standards Board. (“**U.K. GAAP**”)) and deliver copies to the NIAUR;
- provide information to the NIAUR in such manner and at such times as may be reasonably required by the NIAUR for the purposes of the performance of its statutory functions;
- pay an annual Licence fee to the NIAUR; and
- maintain full managerial and operational independence from PSL and any other associated businesses.

In addition, PNG is (amongst other things):

- prohibited, except with the prior consent of the NIAUR (and in certain other limited circumstances), from disposing of, or relinquishing operational control over, relevant assets which would materially affect PNG’s ability to carry on its obligations under the Licence; and
- required to obtain prior consent of the NIAUR to any assignment of its Licence or transfer of all or part of its gas conveyance business.

Conveyance conditions

In addition, PNG’s Licence includes conditions pursuant to which PNG must:

- use its reasonable endeavours (when setting conveyance charges) to ensure the maximum annual allowed revenue is not exceeded (see “*Description of Phoenix Natural Gas Limited – Price Control*”);
- not charge for connecting premises (or any pipeline system) to the Phoenix Network, other than in accordance with the statement of connection charges approved by the NIAUR, nor show any undue preference or undue discrimination against any person seeking a connection to the Phoenix Network;
- enter into an agreement relating to the interaction (or interoperability) of the Phoenix Network with a network belonging to any other holder of a conveyance licence for the purposes of the secure and efficient operation of the two networks;
- establish transportation arrangements which are aimed at facilitating the secure, safe, reliable, efficient and economic development and operation of the Phoenix Network and prepare and publish a “network code” that sets out such arrangements and which in addition includes provisions which identify the

measures to be used for balancing the Phoenix Network, the methodology by which charges will be levied on gas suppliers and the technical safety criteria applicable to the operation of the Phoenix Network (see “*PNG Distribution Code*” below);

- provide and install gas meters at certain premises at the request of gas suppliers (subject in certain circumstances to the gas shipper paying PNG the appropriate charges);
- in co-operation with other holders of a conveyance licence, establish and maintain emergency telephone services and attend to gas escapes within 12 hours;
- establish and take reasonable steps to achieve the established standards of performance (e.g. for connecting domestic premises and prevention of gas escapes into the premises of domestic customers);
- maintain appropriate operational records (e.g. a listing of all premises to which gas is conveyed through the Phoenix Network) for the required period;
- prepare a statement on an annual basis forecasting use of the Phoenix Network (for each of the succeeding 10 years) by persons holding a conveyance, supply or storage licence and setting out proposed network developments which may be relevant for determining future connection charges; and
- (unless the NIAUR agrees otherwise) hold capacity rights in networks belonging to other network operators which are at least equal to the capacity required to meet the forecast daily demand for gas for persons located in the Licensed Area who are supplied with gas conveyed through the Phoenix Network.

Financial ring-fencing conditions

The NIAUR introduced financial ring-fencing conditions to the Licence on 26 June 2009 (which, for the avoidance of doubt, apply to PNG only and do not affect the Issuer or the Holdco Guarantor). Financial ring-fencing conditions are a common feature of U.K. utility company licences. The purpose of this type of condition is to reduce the risk of the operating entity becoming insolvent or otherwise being unable to carry on its regulated business; in addition, the conditions are designed to reduce the risk of the operating entity being adversely affected by the financial condition of its (non-regulated) parent company and subsidiaries. This is achieved by, amongst other things, restricting the levels and types of indebtedness which can be incurred, ensuring the regulated business has adequate resources and restricting dividend payments and other distributions, ensuring the regulated business maintains a minimum credit rating and requiring regular reports to be made on financial gearing levels.

The PNG financial ring-fencing conditions provide as follows:

- **Governance:** no business other than the Licensed Business (as defined in the Licence to mean activities connected to the conveyance of gas as authorised by its Licence) can be carried on by PNG. Also, by 31 March 2010 PNG must have a majority of independent non-executive directors on its board who hold relevant industry or regulatory experience. Lastly, PNG must not give any cross-subsidy to, or receive any cross-subsidy from, any other business of the ultimate controller or of an affiliate or related undertaking of PNG;
- **Resources:** PNG is required to act at all times in a manner calculated to ensure that it has available sufficient resources (including, without limitation, management and financial resources, personnel, fixed and moveable assets, rights, consents and facilities) to carry out its Licensed Business in compliance with its regulatory obligations. The directors of PNG must issue a certificate to the NIAUR in one of the forms specified in the Licence and by 30 June each year confirming whether it has such resources for the following 12 months. PNG provided an adequate resources certificate by 30 June 2009 as required. PNG must also issue an auditor’s report verifying the information in the certificate and advise the NIAUR if circumstances change. Before declaring a dividend or other form of

distribution, PNG must issue the NIAUR with a certificate stating that it is compliant in all material respects with its obligations in the financial ring-fencing conditions of the Licence and that the distribution will not, either alone or when taken together with other reasonably foreseeable circumstances, cause PNG to be in breach to a material extent of any of those obligations in the future;

- **Indebtedness:** PNG is, without the prior approval of the NIAUR, prevented from incurring any indebtedness or entering into any guarantee, mortgage, charge, pledge, lien or other form of security or encumbrance except: (a) on an arm's length basis; (b) on normal commercial terms; and (c) in the furtherance of the Licensed Business. This limitation does not operate to prevent PNG guaranteeing any obligations owed by an affiliate or related undertaking which have been (or are to be) incurred in the furtherance of the Licensed Business. PNG has obtained consent from the NIAUR pursuant to a letter dated 26 May 2009 for intercompany loans in favour of PSL for amounts (including interest) not exceeding 5 per cent. of TRV;
- **Transfers/Payments:** PNG is, without the prior approval of the NIAUR, prevented from transferring, leasing, licensing or lending any sum, asset, good, right or benefit to a related undertaking or to an affiliate except where the transfer/payment is by way of: (a) a transfer/payment on an arm's length basis on normal commercial terms and either (i) payment is made in full up-front; or (ii) the counterparty has and maintains an investment grade credit rating; or (iii) the obligations of the counterparty are fully and unconditionally guaranteed by a guarantor which has and maintains an investment grade credit rating; (b) a payment properly due for any goods, services or assets provided to PNG on an arm's length basis and on normal commercial terms; (c) a repayment of a loan, or payment of any interest on a loan, which loan is not prohibited under the Licence; (d) a dividend or other distribution out of distributable reserves in accordance with the Licence; (e) a repayment of capital; (f) a payment for group corporation tax relief calculated on a basis not exceeding the value of the benefit received; or (g) a loan to any affiliate or related undertaking of PNG, which is made in accordance with the Licence;
- **Cross-default:** PNG is, without the prior consent of the NIAUR, prevented from incurring a commitment incorporating a cross-default obligation (being a term whereby PNG's liability to pay or repay any debt or other sum arises, is increased or accelerated, by any person other than PNG) or allowing a cross-default obligation to remain in effect, provided PNG may permit any cross-default obligation in existence at 29 June 2009 to remain in effect for 12 months, provided that the cross-default obligation is solely referable to an instrument relating to the provision of a loan or other financial facilities granted prior to 29 June 2009 and the terms on which those facilities have been made available are not varied or otherwise made more onerous;
- **Behavioural undertaking:** PNG is required to procure from each person which is an ultimate controller of it, and provide to the NIAUR, a legally enforceable undertaking in its favour that the ultimate controller will not cause PNG to breach any of its obligations under the Gas Order, the Energy Order or the Licence; and
- **Financial gearing and credit rating:** by 30 June each year, PNG must submit a certificate to the NIAUR showing the financial gearing at the end of the previous year. PNG provided a financial gearing certificate by 30 June 2009 as required. From 31 March 2010, PNG is to take all appropriate steps to obtain and thereafter maintain an investment grade credit rating. For the purposes of the Licence, an investment grade credit rating means a rating of BBB- by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., or Baa3 by Moody's Investors Service Inc., or BBB- by Fitch Ratings Ltd or any of their subsidiaries, or an equivalent rating from any other reputable credit rating agency notified in writing by the NIAUR. In the event that the credit rating is below the level required for an investment grade credit rating or is under review for possible downgrade, PNG must inform the NIAUR immediately, detailing the measures taken to implement the additional transfer/payment restrictions noted below and the measures undertaken to retain, gain or regain the investment grade

credit rating. On 30 June of each year, PNG must submit to the NIAUR a report on the present status and future outlook for the coming year of the credit rating and the present status and future outlook for the financial gearing.

Additional transfer/payment restrictions (cash lock up)

If PNG does not hold an investment grade credit rating, or one or more of the credit ratings held by PNG is below those set in the Licence or its rating outlook has been changed from stable or positive to negative or is on review for a possible downgrade, then PNG is, without the prior approval of the NIAUR, prevented from transferring, leasing, licensing or lending any sum, asset, good, right or benefit to a related undertaking or to an affiliate except where the transfer/payment is by way of: (a) a transfer/payment on an arm's length basis on normal commercial terms and payment is made in full up-front; (b) a payment properly due for any goods, services or assets provided on an arm's length basis and on normal commercial terms in relation to a commitment entered into before the additional restrictions apply; (c) a repayment of a loan, or payment of any interest on a loan, which loan is not prohibited in relation to a commitment entered into before the additional restrictions apply and provided the repayment is not made before the due date; or (d) a payment for group corporation tax relief calculated on a basis not exceeding the value of the benefit received provided the payment is not made before the date on which the tax relieved would have been due.

Note that where PNG is in material default of any obligation contained in any of the financial ring-fencing conditions it may not declare or pay a dividend. PNG is not prevented under its Licence from granting the PNG Guarantee, pursuant to which PNG will guarantee the obligations of the Issuer under the Bonds.

Modification

The Licence may be modified:

- in accordance with the terms of the Licence (e.g. through the operation of the price control conditions);
- in accordance with Articles 9 (*Exclusive licences under Article 8(1)(a) or (c)*), 14 (*Modification by agreement*), 17 (*Modification following report*), 17A (*Competition Commission's power to veto modifications following report*) or 18 (*Modification by order under other statutory provisions*) of the Gas Order; or
- in accordance with any provision for the modification of the same in the Energy Order.

Termination

The Licence continues in force until determined by DETI by giving not less than 25 years' notice in writing, unless revoked by DETI in accordance with the terms specified in the Licence.

Revocation

The Licence can be revoked with 30 days' notice by DETI if:

- PNG agrees in writing with DETI that the Licence should be revoked;
- PNG fails to pay Licence fees due to the NIAUR;
- PNG fails to comply with a final order or with a provisional order within the meaning of Article 42 (*Orders for securing compliance*) of the Energy Order and such failure is not rectified to the satisfaction of DETI within three months or if PNG fails to pay any financial penalty imposed by the NIAUR;
- PNG fails to comply with any order made by the Secretary of State under Sections 84 and 161 of the Enterprise Act 2002 or Section 34 of the Competition Act 1998;

- PNG is unable to pay its debts, a voluntary arrangement is proposed in relation to it or it enters into a scheme of arrangement (save in respect of certain circumstances);
- a receiver of the whole or any material part of PNG's assets or undertaking is appointed;
- an administration order under Article 21 (Administration) of the Insolvency (Northern Ireland) Order 1989 (as amended by the Insolvency (Northern Ireland) Order 2005) and Schedule B1 to the Insolvency (Northern Ireland) Order 1989 is made in relation to PNG;
- PNG passes any resolution for winding-up other than a resolution previously approved in writing by DETI;
- PNG becomes subject to an order for winding-up by a court of competent jurisdiction;
- PNG fails to notify DETI of any change in control as soon as practicable or, following a notified change of control, DETI serves a notice on PNG revoking the Licence unless a further change of control (as specified by DETI) occurs within three months;
- PNG is convicted of an offence under Article 46 (*Making of false statements, etc.*) of the Gas Order or under Article 63 (*Making of false statements, etc.*) of the Electricity (Northern Ireland) Order 1992;
- PNG ceases for a period of three months (or more in exceptional circumstances) to carry on its business in the conveyance of gas; or
- PNG does not have ownership of the relevant assets required for the conduct of the conveyance activity.

As of the date of this Prospectus, none of the above-listed circumstances apply to PNG.

Comparison of Licence Conditions and Regulation to Great Britain Gas Distribution Networks (“GDNs”)

The standard conditions of the Licence are broadly similar to those of the licences issued by the Gas and Electricity Markets Authority to GDN operators in Great Britain. The principal Licence and regulatory differences between PNG and GDNs in Great Britain are the minimum Licence termination notice period of 25 years, the absence of a special administration regime and the profile adjustment recovery mechanism.

PNG Distribution Code

The PNG Distribution Code (current version dated 15 May 2009) sets out the arrangements for the conveyance of gas through distribution pipelines established in accordance with the Licence and the terms on which PNG will enter into such arrangements with users for the conveyance of gas through the Phoenix Network.

PNG used the GB Network Code as the basis for drafting its own network distribution code. Network codes provide a consistent and transparent set of contractual terms for operators and suppliers transporting gas across licence areas or pipelines. Many of the key gas transportation activities such as gas nominations, allocations, reconciliation processes and credit support options contained in the GB Network Code are used in the PNG Distribution Code. However, in many instances they have been simplified to meet the requirements of the market size in which PNG operates (for example, customer switching process, gas nomination and allocation process).

Regulated Asset Value (“RAV”) Based Regulation

RAV is a concept used to calculate the allowed return for certain regulated gas and other utility companies within the U.K.. For PNG, there are two different concepts of RAV identified in the Licence, being:

- depreciated asset value (“**DAV**”), which is the closing DAV from the previous year plus capex less depreciation; and
- total regulatory value (“**TRV**”), which is equal to DAV, plus the (cumulative) profile adjustment (“**PA**”), plus capital creditors/debtors, plus working capital (excluding capital creditors and tax). The Licence states that the value of TRV in 2006 was £312.8m.

PNG’s Licence pre-tax rate of return is 7.5 per cent. up to and including 2016, after which time it may be reviewed by the NIAUR. Prices are set so that the cashflow (adjusted to reflect the allowed rate of return) up to the end of 2046 is equal to the difference between the TRV at the end of the previous review period (adjusted to reflect the allowed rate of return) and the forecast DAV, working capital and capital creditors at the end of 2046. A profile adjustment is used to reflect the long-term nature of the price control as prices are established at each five-year price control by reference to the period to 2046 and not by reference to the five-year price control period. This is described further in “*Profile Adjustment Mechanism*” below.

It is envisaged that prior to the next five-year price control period, a modification will be made to the terms of the Licence which will allow under-spent capex to be removed from DAV on a five-year rolling basis while over-spent capex will be added to DAV on a five-year rolling basis where PNG can demonstrate that the over-spend has been incurred efficiently.

Profile Adjustment Mechanism

PNG currently has a 40-year deferred recovery profile. This means that recovery of current costs is partially deferred to future periods when the customer base and volumes are expected to be greater. Distribution income is therefore set (based on a flat real pence per therm basis by category) based on forecast costs and volume over the 40-year period from 2006. This PA is calculated by the NIAUR at each five-year determination.

Based on the current price determination, the NIAUR forecasts TRV to be £128m (based on 2006 real values) by 2046, with the PA fully recovered. This TRV balance represents the undepreciated capital expenditure at 2046.

Prices are expected to be set in subsequent reviews to ensure the PA continues to be completely recovered by 2046.

Fixed Revenue Control

PNG proposed and the NIAUR has agreed to move from a volume incentivised regime (“**weighted average revenue yield**”) to a mechanism whereby revenues are essentially capped to the amount determined at the commencement of the five-year price control. Distribution prices are set in advance of each year in order to recover the income determined in the price control for that year. A correction mechanism (known as “**K**” under the Licence) is in place to increase or decrease (as applicable) the determined conveyance revenue in the following year to reconcile differences between actual and forecast revenue from previous year(s).

Differences between actual and forecast amounts, or “**Z**”, can be attributed to:

- variances between actual and forecast volumes;
- variances between actual and forecast Retail Price Index (All Items); and
- the Connections Incentive/Penalty depending on actual OOs and small firm tariff connections compared to baseline.

If Z is an over-recovery of revenue, it is rolled forward and returned to customers at 7.5 per cent. and is factored into allowed revenue for the next year. If Z is an under-recovery, it is rolled forward at the U.K. base rate plus 1.5 per cent. (subject to a 10 per cent. revenue threshold each year).

Price setting

Generally (and ignoring incentive mechanisms), at each review, each real price for each category is set so that the present value of the net cash flow over the remaining period to 2046 is equal to the difference between:

- the current TRV; and
- the present value of DAV, capital creditors and working capital in 2046 (i.e. the assumed terminal value).

This approach to setting the allowed conveyance revenue is intended to ensure that the prices at each price review will be adjusted to fully recover the PA by 2046.

Connections Incentive Mechanism

The connections incentive mechanism has been agreed and is designed to share the additional/shortfall revenue per connection generated over the review period between PNG and its customers up to a maximum of 100 per cent. in the year of the connection. To the extent that PNG generates additional connections above the baseline target, PNG receives additional revenue in subsequent years through increased distribution charges to its customers. Conversely, PNG's revenues would be reduced to the extent it failed to meet baseline connection levels (in each case, subject to any other adjustments that may apply).

The incentive values in each year are based on the revenue that would be generated over the control period by a marginal connection in 2007. The incentive value of each marginal connection has been determined to be £722 for the OO sector and £1,256 for the small tariff I&C sector. For shortfalls in connections, the determined average incentive penalty is capped at the marginal revenue (“MR”) amount that would have been generated by a connection in that year. The methodology for incentive penalties on the small tariff I&C sector is the same, although the MR and baseline connections are different.

Additional incentives could be included as part of a price control determination or otherwise with the consent of the NIAUR and PNG.

Potential Significant Retrospective Adjustments

Traffic Management Act 2004 (“TMA”)

A 35 per cent. uplift (estimated to be £4.5m in Price Control 03 (“PC03”) for mid-2009 to 2011) has been allowed in PC03 in respect of mains and services to reflect the expected impact of the equivalent legislation to the TMA in Northern Ireland, being the Street Works (Northern Ireland) Order 1995 (as amended). The difference between the allowance and what the NIAUR considers appropriate is expected to be adjusted to TRV/DAV at the start of the next five-year price control period. See “*Risk Factors – Regulatory Considerations and Costs – TMA costs*”.

Deferred Capex

PNG has received allowances in Price Control 01 and Price Control 02 from the NIAUR for capital projects that have been deferred to a future date. PNG will therefore not be allowed this cost in future price control periods, but will have benefited from the time value of money for the period of deferral.

Number of properties passed and numbers of customers connected

The number of connections above or below the determined number of connections for each year will result in a retrospective adjustment in allowed meter and service costs at the next review. Similarly, if the actual number of properties passed is less or more than forecast, the costs of infill and feeder mains will reduce allowances retrospectively. The principles have been agreed with the NIAUR, although the final methodology for calculating any retrospective adjustments within the price control determination is currently being detailed.

Other retrospective adjustments and/or potential re-opener reviews include:

- own-use gas costs;
- unit rate for large I&C connection costs;
- domestic regulator replacement costs;
- recharges to other Phoenix businesses;
- supply competition development costs;
- regulated revenue;
- Pay As You Go (“PAYG”) switchers;
- domestic meter failures;
- rates;
- Licence fees;
- market development;
- customer incentives; and
- working capital.

Any adjustment to allowable costs associated with either a retrospective adjustment or a re-opener is expected to be dealt with through adjusting opening asset value at the start of next price control period (2012 to 2016).

See “*Risk Factors – Regulatory Considerations and Costs – Retrospective adjustments*”.

Health and Safety Regulation

PNG’s gas supply and operations are subject to a number of laws and regulations which fundamentally require PNG to operate in a safe and responsible manner. The principal enforcement agency is the HSE(NI). Such laws and regulations include the following:

Health and Safety at Work (Northern Ireland) Order 1978

PNG is subject to the general provisions of the Health and Safety at Work (Northern Ireland) Order 1978 and, in particular, regulations issued under it, the more significant of which, in relation to the Phoenix Network, are set out below.

The HSE(NI) is responsible for regulating safety matters relating to the operation of gas transportation infrastructure.

Gas Safety (Management) Regulations (Northern Ireland) 1997

The Gas Safety (Management) Regulations (Northern Ireland) 1997 (“GSMR”) relate to the safe management of natural gas flow through pipelines supplying customers. GSMR requires that no person shall convey gas in a network unless:

- the person has prepared a safety case in accordance with Schedule 1 of the regulations, and the safety case has been accepted by the HSE(NI). Once approved, there is a duty to operate in line with the safety case; and
- where any other party is conveying gas in a network, there is a sole Network Emergency Coordinator.

The regulations require that safety cases are kept up to date. Where a change in operations, or a series of changes in aggregate, would make the safety case materially different from the last accepted version, PNG is

required to resubmit the safety case and have it accepted by the HSE(NI) before the change can be implemented. In addition, PNG has to carry out a review of its safety case at least every three years, and provide the HSE(NI) with a written report of the review, even if there are no material changes.

PNG is obliged to provide certain emergency services under these regulations and under its Licence, including establishing and maintaining emergency telephone services and attending to gas escapes within 12 hours.

The Pipelines Safety Regulations (Northern Ireland) 1997

PNG is required to comply with the requirements of the Pipelines Safety Regulations (Northern Ireland) 1997, which place a number of obligations on pipeline operators relating to safety in the design, construction, construction materials, installation, operation, maintenance and decommissioning of pipelines.

A distribution network operator can face fines and/or criminal charges for failing to comply with the health and safety standards that govern the construction, operation and maintenance of gas pipelines. In the event a third party sustains a loss, a distribution network operator can face civil proceedings by the third party to recover costs.

OVERVIEW OF THE KEY DOCUMENTS

The following is a summary of the key documents. The information set out below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the key documents.

Trust Deed

General

The Trust Deed between the Issuer, the Guarantors and the Bond Trustee contains, amongst other things, the following provisions:

- (a) the Issuer's covenant to the Bond Trustee (who holds the benefit of the covenant on trust for the Bondholders) to pay the principal and interest on the Bonds in accordance with the Conditions;
- (b) the Issuer's liberty from time to time (but subject always to the provisions of the Trust Deed) without the consent of the Bondholders or Couponholders to create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest in respect of such Bonds) and so that such further issues shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue;
- (c) requirements in relation to global and definitive bonds;
- (d) the PNG Guarantee given by PNG and the Holdco Guarantee given by the Holdco Guarantor as further described below;
- (e) the covenants and undertakings of the Issuer and the Guarantors as further described below;
- (f) the Bond Trustee's power to approve authorise or waive any breach or proposed breach of any of the covenants or provisions of the Trust Deed or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Deed provided that, the Bond Trustee shall not exercise any powers conferred upon it by such provision in contravention of any express direction by an Extraordinary Resolution (as defined in the Trust Deed) or of a request pursuant to Condition 8 (*Events of Default*);
- (g) provisions relating to meetings of Bondholders, including the modification of the Conditions and the Issue Documents and the terms of the PNG Guarantee and the Holdco Guarantee;
- (h) provisions relating to assumption by each of the Guarantors of the obligations of the Issuer as principal debtor under the Trust Deed; and
- (i) the appointment, resignation, remuneration, indemnification and liability of the Bond Trustee.

PNG Guarantee and Holdco Guarantee

Each Guarantor (including for the avoidance of doubt, any successor guarantor to PDHL or its replacement guarantor) unconditionally and irrevocably jointly and severally guarantees that if the Issuer does not pay any sum payable by it under the Trust Deed, the Bonds or the Coupons at the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise) each Guarantor will pay that sum to or to the order of the Bond Trustee, according to the terms of the Trust Deed and the Bonds and the Coupons. In case of the failure of the Issuer to pay any such sum as and when the same becomes due and payable, each Guarantor agrees to cause such payment to be made as and when the same becomes due and payable, as if such payment were made by the Issuer.

Each Guarantor unconditionally and irrevocably agrees, as an independent primary obligation, that it will pay to the Bond Trustee sums sufficient to indemnify the Bond Trustee and each Bondholder and Couponholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under the Trust Deed, the Bonds or the Coupons not being paid on the date and otherwise in the manner specified in the Trust Deed or any payment obligation of the Issuer under the Trust Deed, the Bonds or the Coupons being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Bond Trustee, any Bondholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

If the Issuer defaults in the payment of any sums payable under the Trust Deed or in respect of the Bonds or Coupons, each Guarantor will unconditionally pay or procure to be paid to the order of the Bond Trustee the amount in respect of which the default has been made.

Each Guarantor's guarantee and indemnity is a continuing guarantee and indemnity and shall remain in full force and effect until all amounts due in respect of the Bonds or Coupons or under the Trust Deed have been paid in full. The Guarantors shall not be discharged by anything other than a complete performance of the obligations under the Trust Deed and the Bonds and the Guarantors shall be subrogated to all rights of the Bond Trustee and the Bondholders against the Issuer in respect of any amounts paid by the Guarantors pursuant to the Trust Deed.

PDHL may, at any time after the Closing Date and subject to the satisfaction of certain conditions set out in the Trust Deed, novate as part of a Permitted Reorganisation (defined below) its role as the Holdco Guarantor to a new guarantor, provided always that (a) PNG is at all times wholly-owned directly and beneficially, by the new guarantor and (b) the Issuer is at all times wholly-owned directly and beneficially by PNG.

The payment obligations of PNG in respect of the PNG Guarantee constitute direct, unsecured and unconditional obligations of PNG. PNG has not created any security in respect of the PNG Guarantee.

PDHL has, pursuant to the Security Agreement, secured its obligations under the Holdco Guarantee. Enforcement of the security created pursuant to the Security Agreement is subject to the Intercreditor Agreement. The payment obligations of PDHL in respect of the Holdco Guarantee constitute direct, secured and unconditional obligations of PDHL.

In the event of a replacement of PDHL or its replacement guarantor with a new guarantor as part of a Permitted Reorganisation, the new guarantor will be required under the Trust Deed, amongst other things, to enter into a security agreement with the Security Trustee on substantially the same terms as the Security Agreement to secure its obligations under the Holdco Guarantee. For a description of a Permitted Reorganisation, see "*Overview of the Phoenix Group*".

Covenants of the Issuer and the Guarantors

So long as any Bond or any Coupon is outstanding, the Issuer and the Guarantors will:

- (a) at all times carry on and conduct its affairs and procure its Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;
- (b) give or procure to be given to the Bond Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall reasonably require, for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed or by operation of law;
- (c) cause to be prepared and certified by the Auditors in respect of each financial accounting period accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of the London Stock Exchange or such other stock exchange as the Bonds may be listed from time to time;

- (d) at all times keep and procure its Subsidiaries to keep proper books of account, and allow and procure its Subsidiaries to allow, after an Event of Default or a Potential Event of Default, or if the Bond Trustee has reasonable grounds for so requiring, the Bond Trustee and any person appointed by the Bond Trustee to whom the Issuer, the Guarantors or the relevant Subsidiary (as the case may be) shall have no reasonable objection, free access to such books of account at all reasonable times during normal business hours and make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Bondholders and Couponholders;
- (e) send to the Bond Trustee (in addition to any copies to which it may be entitled as a holder of any securities of the Issuer or the Guarantors), at the time of issue and in the case of annual statements in any event within 180 days of the end of the financial year, two copies in English of every balance sheet, profit and loss account, report, circular and notice of general meeting and every other document issued or sent to its shareholders together with any of the foregoing, and every document issued that is, or would be required to be, sent to holders of securities other than its shareholders (including the Bondholders) if the relevant member of the Phoenix Financing Group were a public limited company (if it is not already a public company) as soon as practicable after the issue or publication thereof;
- (f) so far as permitted by applicable law, at all times execute and do all such further documents, acts and things as may be necessary at any time or times in the reasonable opinion of the Bond Trustee to give effect to the Issue Documents or, in the case of the Holdco Guarantor, the Kellen Documents; provided always that nothing in the Trust Deed shall impose any additional obligations on the Holdco Guarantor in respect of granting security over its assets which are not otherwise imposed on it pursuant to the Security Agreement;
- (g) at all times maintain Paying Agents in accordance with the Conditions;
- (h) use all reasonable endeavours to maintain the listing of the Bonds on the official list of the Financial Services Authority in its capacity as competent authority under the FSMA and admission to trading on the Market, or, if it is unable to do so having used its reasonable endeavours or if the Bond Trustee agrees with the Issuer that the maintenance of such listing is unduly onerous and the Bond Trustee is satisfied that to do so would not be materially prejudicial to the interests of the Bondholders, use its reasonable endeavours to obtain and maintain a quotation or listing of the Bonds on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Bond Trustee) decide and shall also upon obtaining a quotation or listing of the Bonds on such other stock exchange or exchanges or securities market or markets enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Bond Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange or securities market;
- (i) give to the Bond Trustee (1) within seven days after demand by the Bond Trustee therefor and (2) (without the necessity for any such demand) promptly after the publication of its audited accounts in respect of each financial period, commencing with the financial period ending 31 December 2009 and in any event not later than 180 days after the end of each such financial period a certificate in or substantially in the form set out in Schedule 4 (*Form of Directors' Certificate*) of the Trust Deed signed by two Directors of the Issuer and two Directors of each Guarantor, respectively to the effect that as at a date not more than seven days before delivering such certificate (the "**certification date**") or, in respect of the financial covenants, any relevant Calculation Date there did not exist and had not existed since the certification date of the previous certificate (or in the case of the first such certificate the date of the Trust Deed) any Event of Default, Potential Event of Default, Regulatory Put Event and any other Lock-Up Event (or if such exists or existed specifying the same) and that during the period from and including the certification date of the last such certificate (or in the case of the first such certificate the date of the Trust Deed) to and including the certification date of such certificate each of the Issuer and the Guarantors has complied with all its obligations contained in the Trust Deed and the other Issue Documents or (if such is not the case) specifying the respects in which it has not complied;

- (j)
 - (i) supply to the Bond Trustee (x) their respective audited financial statements for each of the financial years, within 180 days of the end of the relevant financial period; and (y) their respective interim financial statements for each of the financial years within 120 days of the end of the relevant financial period; and
 - (ii) supply to the Bond Trustee a Compliance Certificate with each set of financial statements supplied to the Bond Trustee under paragraph (j)(i) above commencing in respect of the year ending 31 December 2010; and
 - (iii) the Compliance Certificate must be signed by two authorised signatories of the Issuer and the Guarantors and, in the case of a Compliance Certificate supplied with the annual audited financial statements, the calculations shall be confirmed or reported on by the auditors of the relevant company;
- (k) send to the Bond Trustee, not less than 3 days prior to which any such notice is to be given, the form of every notice to be given to the Bondholders in accordance with Condition 15 (*Notices*) and obtain the prior written approval of the Bond Trustee to, and promptly give to the Bond Trustee two copies of, the final form of every notice to be given to the Bondholders in accordance with Condition 15 (*Notices*) (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);
- (l) comply with and perform all its obligations under the Issue Documents and use all reasonable endeavours to procure that the Paying Agents comply with and perform all their respective obligations under the Paying Agency Agreement and any notice given by the Bond Trustee pursuant to the Trust Deed;
- (m) prior to making any modification or amendment or supplement to the Trust Deed, if reasonably requested, procure the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Bond Trustee, dated the date of such modification or amendment or supplement, as the case may be, and in a form acceptable to the Bond Trustee from legal advisers acceptable to the Bond Trustee;
- (n)
 - (i) forthwith give notice in writing to the Bond Trustee of the occurrence of any Event of Default, Potential Event of Default, Regulatory Put Event or any other Lock-Up Event; and
 - (ii) together with such notice in respect of a Lock-Up Event provide the Bond Trustee with (i) full details of the Lock-Up Event and (ii) PNG's plan to take appropriate remedial action and the timetable for taking such action; and
 - (iii) (in the case of the Holdco Guarantor only) (i) forthwith give notice in writing to the Bond Trustee of the occurrence of any Kellen Enforcement Event; and (ii) together with such notice in respect of a Kellen Enforcement Event provide the Bond Trustee with (x) full details of the Kellen Enforcement Event and (y) the Holdco Guarantor's plan to take appropriate remedial action and the timetable for taking such action;
- (o) give at least 14 days' prior notice to the Bondholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Bond Trustee's written approval;
- (p) send to the Bond Trustee as soon as practicable after being so requested by the Bond Trustee a certificate of the Issuer or, as the case may be, the Guarantors signed by any two of its directors stating the number of Bonds held at the date of such certificate by or on behalf of the Issuer or, as the case may be, the Guarantors or their respective Subsidiaries;
- (q)

- (i) not amend, vary, novate, supplement, supersede, waive or terminate any term of an Issue Document or, in the case of the Holdco Guarantor, the Kellen Documents or its constitutional documents (if, in respect of the constitutional documents, such amendment would be reasonably likely to materially prejudice the interests of Bondholders) without the prior written consent of the Bond Trustee; and
- (ii) notify the Rating Agencies then rating the Bonds of any such amendment, variation, novation, supplementation, succession, waiver or termination of an Issue Document or constitutional document (unless deemed not to be reasonably likely to be materially prejudicial to the interests of Bondholders) made in accordance with the sub-paragraph above;
- (r) pay moneys payable by it to the Bond Trustee without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law will pay such additional amount as will result in the payment to the Bond Trustee of the amount which would otherwise have been payable by it to the Bond Trustee under the Trust Deed;
- (s) operate, maintain and conduct its business in accordance with: (i) (in the case of the PNG) its Licence and the Acts; (ii) its constitutional documents; (iii) (in the case of the PNG) the PNG Distribution Code; (iv) the Issue Documents and (v) (in the case of the Holdco Guarantor) the Kellen Documents, where failure to do would have a Material Adverse Effect;
- (t) ensure that at all times any unsecured and unsubordinated claims of a Bondholder against it under the Issue Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors except those creditors whose claims are mandatorily preferred by laws of general application to companies;
- (u) not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset other than pursuant to a Permitted Disposal;
- (v)
 - (i) not change its Accounting Reference Date without the prior written consent of the Bond Trustee or the approval of the Bondholders by way of Extraordinary Resolution of holders of the Bonds then outstanding; and
 - (ii) ensure that each half-yearly accounting period and each of the financial half-year of the Issuer and the Guarantors shall end on 30 June and 31 December;
- (w) (i) not make any Distributions at any time prior to the receipt by the Bond Trustee of a certificate in the form referred to in paragraph (j) above relating to the first Calculation Date and (ii) on and following the receipt by the Bond Trustee of such certificate, not make any Distributions when a Lock-up Event has occurred and is continuing;
- (x) ensure that no substantial change is made to the general nature of the business of PNG or the Group from that carried out on the Closing Date and that the Group does not conduct any Non-Core Business other than Permitted Non-Core Business;
- (y)
 - (i) (in the case of PNG only) promptly upon receiving them and, subject to applicable law, supply to the Bond Trustee, any Penalty Notice, Enforcement Notice, Provisional Order or Final Order, in relation to any matter which would or would be reasonably likely to have a Material Adverse Effect, or any other material regulatory notices or orders or promptly following the exercise of any powers by any applicable regulator; and

- (ii) for so long as the Issuer or the Guarantors on its behalf maintains an Investor Website, such information will be made available to the Bondholders (subject to appropriate investor acknowledgements) on the Investor Website by the Issuer or the Guarantors;
- (z) promptly upon becoming aware of them supply to the Bond Trustee, details of any transfer of legal or beneficial ownership in any share capital of PNG or any actual or proposed issue or allotment of any share capital of PNG and, for so long as the Issuer or the Guarantors on its behalf maintains an Investor Website, such information will be made available to the Bondholders (subject to appropriate investor acknowledgements) on the Investor Website by the Issuer or the Guarantors;
- (aa) not to be a creditor in respect of Indebtedness to PSL, except for a Permitted PSL Loan and (following the event described in paragraph (f) of the definition of Permitted PSL Loan) PNG shall use its best efforts to enforce its rights under each Permitted PSL Loan as would an arm's length commercial lender including (without limitation) taking legal action and initiating insolvency proceedings to recover unpaid amounts, and will not accept any composition or compromise of any such Permitted PSL Loan (except with the prior written consent of the Bond Trustee or the approval of Bondholders by way of an Extraordinary Resolution of the holders of the Bonds then outstanding);
- (bb) not to enter into any Treasury Transaction which:
 - (i) constitutes over-hedging other than hedging entered into in reasonable anticipation of the refinancing of existing Indebtedness; and/or
 - (ii) is for the exchange of a fixed rate of interest from the relevant hedge counterparty and a floating rate of interest from PNG; and/or
 - (iii) is for speculative purposes; and
- (cc) ensure that the proceeds of the Bonds are not used in contravention of section 678 or 679 of the Companies Act 2006.

Covenants of Issuer

The Issuer covenants with the Bond Trustee that, so long as any of the Bonds or Coupons remain outstanding it will:

- (a) not carry on any business or enter into any documents other than those contemplated or permitted by the Issue Documents or the Steps Paper;
- (b) (other than dividends or distributions which in aggregate do not result in distributable reserves falling below £100,000 for which Bond Trustee consent shall not be required (a "**Permitted Issuer Dividend**")) pay dividends or make other distributions to its members out of profits available for distribution, such dividends or distributions in all cases to be made only in the manner permitted by its memorandum and articles of association and by applicable laws;
- (c) not have any employees or premises or have any subsidiary undertaking (as defined in the Companies Acts) or become a director of any company; and
- (d) make available the Investor Website Information on the Investor Website maintained by the Issuer (once established).

Covenants of the Holdco Guarantor

The Holdco Guarantor covenants with the Bond Trustee that, so long as any of the Bonds or Coupons remain outstanding it will not:

- (a) carry on or transact any business or other activity other than (i) owning shares in PNG; (ii) the giving of the guarantee and security in accordance with the Transaction Documents; (iii) the performance of

obligations required or exercise of any rights under the Issue Documents and the Kellen Documents;
(iv) any Permitted Steps and (v) any business or activity reasonably incidental to sub-paragraphs (i), (ii), (iii) or (iv);

- (b) own any asset or incur any liabilities except for the purposes of carrying on that business in accordance with the Issue Documents, the Kellen Documents or the Steps Paper and applicable law or regulation;
- (c) suspend, abandon or cease to carry on its business; or
- (d) take any steps to enforce any claims it may have against any of the Issuer and PNG without the prior written consent of the Bond Trustee or an Extraordinary Resolution of the holders of the Bonds then outstanding.

Financial Covenants

(a) Financial Ratios

PNG will undertake to calculate the following ratios as at each Calculation Date:

- (i) the Net Debt/TRV Ratio for each Calculation Period;
- (ii) the Net Debt/DAV Ratio for each Calculation Period;
- (iii) the Historic PMICR for each Calculation Period;
- (iv) the Projected 0 - 12 PMICR for each Calculation Period;
- (v) the Projected 12 - 24 PMICR for each Calculation Period; and
- (vi) the CFADS ICR for each Calculation Period.

(b) Additional Indebtedness

No member of the Group shall incur any additional Indebtedness unless:

- (i) immediately prior to and following the incurrence of such Indebtedness, the Net Debt/TRV Ratio is, or would be, less than 0.80:1;
- (ii) such Indebtedness does not rank senior to the Bonds;
- (iii) if such Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the relevant member of the Group; and
- (iv) no Event of Default or Potential Event of Default would occur as a result of the incurrence of such Indebtedness.

(c) Financial testing

- (i) The Issuer and the Guarantors will undertake to ensure that each of the financial covenants referred to above shall be calculated in accordance with the applicable accounting principles and tested by reference to:
 - (A) in respect of a Directors' Certificate, the relevant financial statements that were published immediately prior to date on which the Issuer or a Guarantor delivers such certificate to the Bond Trustee; and
 - (B) in respect of any values which are subject to estimation by PNG, such values as estimated in good faith by PNG and believed by PNG in good faith to be in accordance with methodology consistent with that which would be applied by the Authority to determine such value in relation to the Calculation Date or, as the case may be, the 0-12 Month Calculation Period or 12-24 Month Calculation Period in question; and

- (C) in respect of any forward looking test, the latest business plan then adopted by PNG and approved by its board of directors, which business plan shall be prepared on a consistent basis, which basis is also believed by PNG in good faith to be consistent with the methodology which would be applied by the Authority and the assumptions to which shall be updated by reference to the most recently available relevant information and the most recently delivered financial statements.
- (ii) To the extent that any estimated or forecast value used in calculating any of the financial ratios above is subsequently the subject of a determination by the Authority, the relevant value as determined by the Authority shall be used for the purposes of the financial covenant calculations. If the determined value is materially different to the estimated or forecast value, PNG shall recalculate any financial covenants calculated on the basis of the estimated or forecast value in respect of the most recent Calculation Date or, as applicable, the Calculation Period ending on that Calculation Date using the value as determined by the Authority. PNG shall deliver an updated Compliance Certificate within 30 days of receiving notice from the Authority of the determination.
- (iii) If (x) at any time the Bond Trustee becomes aware or is notified in writing by the holder or holders of at least 10 per cent. in principal amount of the Bonds then outstanding (the “**relevant Bondholder (s)**”) that there appears to be a material discrepancy, inconsistency or error in any Compliance Certificate provided by PNG; and (y) the Bond Trustee is indemnified and/or secured and/or prefunded to its satisfaction against all costs, expenses, liabilities, losses and claims that it may incur, the Bond Trustee, may (but is not obliged) and shall if so instructed by the relevant Bondholder(s), require PNG, at the cost and expense of PNG, to have such Compliance Certificate reviewed by the auditors of the Group, and a copy of the auditors' report with respect thereto shall be delivered to the Bond Trustee provided that unless an Event of Default or a Potential Event of Default is continuing, the Bond Trustee shall not be entitled to request the review of such Compliance Certificate by the auditors of the Group at the cost and expense of PNG on more than one occasion in any period of 12 months (which shall not, for the avoidance of doubt, restrict the ability of the Bond Trustee to request such a review).

PDHL Default

If a misrepresentation, breach or other default (a “**Relevant Default**”) occurs pursuant to the terms of the Trust Deed as a result of any act or omission or state of affairs in existence which, in each case, relates only to a member of the Group other than PNG or the Issuer (the “**Relevant Member**”), such Relevant Default shall be deemed not to have occurred in relation to PNG and the Issuer and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement action shall arise or may be taken by the Bond Trustee against PNG or the Issuer as a consequence thereof. This provision shall not operate to limit any rights or remedies against the Relevant Member.

Issuer/PNG Loan Agreement

The Issuer and PNG will enter into the Issuer/PNG Loan Agreement pursuant to which the Issuer will use the proceeds of the Bonds to advance the Issuer/PNG Loan to PNG in order to enable PNG to refinance its existing intra-group and external indebtedness. Interest will accrue on the Issuer/PNG Loan and the amount payable will be equal to that payable by the Issuer in respect of the Bonds pursuant to Condition 4 (*Interest*) and its costs and expenses. The Issuer/PNG Loan is repayable on demand by the Issuer or may be prepaid by PNG in each case together with (i) interest accrued thereon and any other amounts due or owing to the Issuer at such time and (ii) if the Issuer has elected to redeem the Bonds in accordance with Condition 5(d) (*Redemption at the Option of the Issuer*), an amount equal to the excess of the Redemption Price (as defined

in Condition 5(d) (*Redemption at the Option of the Issuer*)) over the principal amount of the Issuer/PNG Loan (if any).

Paying Agency Agreement

The Paying Agency Agreement, which will be entered into between the Issuer, the Guarantors, the Principal Paying Agent and the Bond Trustee, includes, amongst other things the following provisions:

- (a) the duties of the Principal Paying Agent and the Paying Agents and the terms on which they are appointed, or on which such appointment may be resigned or terminated or any additional or successor Paying Agents may be appointed;
- (b) joint and several indemnity by the Issuer (failing whom, the Guarantors) of each Paying Agent against any claim, demand, action, liability, damages, cost, loss or expense incurred otherwise than by reason of its own gross negligence, or wilful misconduct, default or bad faith, as a result or arising out of or in relation to its acting as the agent of the Issuer and the Guarantors in relation to the Bonds;
- (c) payment by the Issuer (failing whom, the Guarantors) of principal and/or interest in respect of the Bonds, as the same becomes due and payable, to the Principal Paying Agent, before such payment becomes due and the manner and time of such payments;
- (d) payment by each Paying Agent of principal and interest to Bondholders in respect of the Bonds in accordance with the Conditions;
- (e) provisions relating to the notification of the Bond Trustee in the event that the Principal Paying Agent (i) does not receive on the due date for payment in respect of the Bonds, the full amount payable, or (ii) receives such amount after the relevant due date for payment in respect of the Bonds;
- (f) provisions relating to the authentication of the Temporary Global Bond, the Global Bonds and the definitive Bonds, the exchange of the Temporary Global Bond for a Global Bond, the exchange of the Global Bond for definitive Bonds and the issue of replacement Bonds and Coupons;
- (g) the keeping of records of the payment, redemption, replacement, cancellation and destruction of Bonds; and
- (h) the fees and expenses of the Principal Paying Agent and the Paying Agents.

Intercreditor Agreement

The Intercreditor Agreement will be entered into between, amongst others, the Issuer, the Guarantors, the Senior Lenders under the Senior Facilities Agreement, the Security Trustee and the Bond Trustee (on behalf of the Bondholders). For a summary and description of certain terms of the Intercreditor Agreement, see "*Intercreditor, Enforcement and the Senior Facilities Agreement*".

Security Agreement

PDHL and the Security Trustee will enter into the Security Agreement pursuant to which PDHL will grant, as security for the Holdco Guarantee, (i) fixed security over all its shares in PNG, (ii) an assignment of its rights in respect of the Kellen Documents and (iii) a floating charge over all of its property, undertaking and assets. In addition, PDHL will give certain undertakings in relation to dealings with the charged property. Pursuant to the terms of the Security Agreement, the proceeds of enforcement are required to be applied by the Security Trustee in accordance with the terms of the Intercreditor Agreement. The security constituted by the Security Agreement shall be released at the request and cost of PDHL upon (i) the Holdco Guarantee being discharged in full or (ii) the occurrence of a Permitted Reorganisation.

Kellen Deed of Covenant and the Kellen Security

Carmel, Kellen Capital and PDHL will enter into the Kellen Deed of Covenant pursuant to which Carmel and Kellen Capital (being holding companies of PNG and PDHL by whom a disposal of shares in Kellen is not expected to give rise to a degrouping charge as they are not in the capital gains tax group of which Kellen is the principal company) will, jointly and severally, undertake to PDHL that: (i) neither they nor any company they control will take or omit to take any action which is reasonably likely to result in a degrouping charge (as defined in *Risk Factors - Relationship with Kellen Group and tax risk*) arising in PNG without paying to PDHL (for the benefit of PNG) an amount equal, on an after tax basis, to a good faith estimate of the amount of such degrouping charge (such an amount will also be due if the undertaking is breached), (ii) if the Transaction Security becomes enforceable they will pay an amount to PDHL equal to the guaranteed amounts due under the Holdco Guarantee and certain other guarantees granted by the Holdco Guarantor in respect of PNG indebtedness and (iii) that neither they nor their subsidiaries will dispose of PSL, PESL or PEL when an event of default or potential event of default has occurred under the Transaction Documents (a “**Default Period**”). Notwithstanding the above, PSL, PESL or PEL may be disposed of during a Default Period provided that (i) there has been no breach of the Kellen Deed of Covenant, (ii) such disposal is made on the basis of no recourse to Kellen or any of its subsidiaries (other than the subsidiary which is the subject of the disposal) and (iii) an amount equal to any liabilities arising in connection with such disposal is paid to PDHL (for the benefit of the company in which the liabilities arise). These undertakings are limited in recourse to the proceeds of enforcement of the security granted in respect of them and will expire after the end of a covenant period ending, in broad terms, when the risk of the relevant degrouping charge arising ends.

Carmel and PDHL will enter into a security agreement pursuant to which Carmel will grant, as security for its undertakings in the Kellen Deed of Covenant, security to PDHL over its shares in Kellen (the “**Carmel Security Document**”). As described in “*Security Agreement*” above PDHL’s rights in respect of such security will be assigned to the Security Trustee (on trust for the Secured Creditors) pursuant to the Security Agreement.

Kellen Capital and PDHL will enter into a security agreement pursuant to which Kellen Capital will grant, as security for its undertakings in the Kellen Deed of Covenant, security to PDHL over its shares in Kellen together with a floating charge over all of its property, undertaking and assets (the “**Kellen Capital Security Document**”). As described in “*Security Agreement*” above PDHL’s rights in respect of such security will be assigned to the Security Trustee (on trust for the Secured Creditors) pursuant to the Security Agreement.

The security granted by Carmel and Kellen under the Carmel Security Document and the Kellen Capital Security Document, respectively, will become enforceable on the occurrence of a relevant Kellen Enforcement Event.

The liabilities of Carmel and Kellen Capital under the Kellen Deed of Covenant will, in each case, be limited in recourse to the proceeds of enforcement of the security granted under the Carmel Security Document and the Kellen Capital Security Document respectively.

Definitions

“**0 - 12 Month Calculation Period**” means, in relation to any Calculation Date, the period commencing on and including the day after that Calculation Date and ending on and including the date falling 12 months after that Calculation Date.

“**12 – 24 Month Calculation Period**” means, in relation to any Calculation Date, the period commencing on and including the day after the date falling 12 months after that Calculation Date and ending on and including the date falling 24 months after that Calculation Date.

“**Acceptable Bank**” means:

- (a) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A or higher by Fitch or A2 or higher by Moody's or a comparable rating from an internationally recognised credit rating agency; or
- (b) any other bank or financial institution approved by the Bond Trustee (acting reasonably).

“**Accounting Reference Date**” means 31 December in each year.

“**Acting in Concert**” means a group of persons who, pursuant to an agreement (whether, formal or informal), actively co-operate, through the acquisition of shares in PSL by any of them, either directly or indirectly, to obtain or consolidate Control of PSL.

“**Acts**” means The Gas (Northern Ireland) Order 1996 (as amended) and The Energy (Northern Ireland) Order 2003 (as amended).

“**Affiliate**” means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company.

“**Allowed Adjustment to Operating Expenditure**” means, in relation to a Price Control Period, the adjustments to Operating Expenditure applicable to that Price Control Period allowed or disallowed by the Authority from time to time (including pursuant to the application of any permitted adjustment mechanisms as are specified within the relevant Determination Notice).

“**Allowed Capital Expenditure**” means, in relation to a Price Control Period, the Review Determined Capital Expenditure applicable to that Price Control Period adjusted to take account of Capital Expenditure in relation to that Price Control Period otherwise allowed or disallowed by the Authority from time to time (including pursuant to the application of any permitted adjustment mechanisms specified within the relevant Determination Notice).

“**Annual Depreciation**” shall have the meaning given and be determined in accordance with Condition 2.3 of the Licence.

“**Associate**” means:

- (a) any person who has Control of the Issuer or any of the Guarantors; or
- (b) any person who is subject to Control by the Issuer or any of the Guarantors,

and, in each case, any Affiliate of such person.

“**Auditors**” means KPMG Chartered Accountants, the auditors for the time being of the Issuer and the Guarantors or, if they are unable or unwilling to carry out any action requested of them under the Trust Deed, such other firm of accountants as may be nominated or approved in writing by the Bond Trustee for the purpose.

“**Authority**” means the Northern Ireland Authority for Utility Regulation or the Department of Enterprise, Trade and Investment, as applicable, or a successor to either of them.

“**Authority PSL Loan Letter**” means the letter dated 26 May 2009 from the Authority relating to permitted loans from PNG to PSL.

“**BG Contract**” means the contract dated 18 October 1996 (as amended from time to time) between PSL and British Gas Trading Limited.

“**BG Guarantee**” means the guarantee dated 24 January 2006 granted by KAL in favour of British Gas Trading Limited in respect of certain obligations of PSL under the BG Contract.

“**Bonds**” means the Original Bonds and any Further Bonds save that in Schedules 1 and 2 of the Trust Deed, “**Bonds**” means the Original Bonds and any Further Bonds forming a single issue therewith and the words Bondholders, Coupons and Couponholders where used therein shall be construed accordingly.

“**Bondholder**” means the bearer of a Bond.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

“**Calculation Date**” means each 31 December and 30 June in any year and the first Calculation Date shall be 31 December 2010.

“**Calculation Period**” means, in relation to any Calculation Date, each period of 12 months ending on and including that Calculation Date.

“**Capital Creditors**” shall have the meaning given and be determined in accordance with Condition 2.3 of the Licence.

“**Capital Expenditure**” shall have the meaning given and be determined in accordance with Condition 2.3 of the Licence.

“**Cash**” means, at any time, cash denominated in sterling or euros and credited to an account in the name of a member of the PNG Group with an Eligible Deposit Bank and to which that member of the PNG Group is alone beneficially entitled and for so long as:

- (a) such cash is repayable on demand;
- (b) repayment of such cash is not contingent on the prior discharge of any other indebtedness of that member of the PNG Group or of any other person whatsoever or on the satisfaction of any other condition; and
- (c) there is no Security Interest over that cash.

“**Cash Equivalent Investments**” means, at any time:

- (a) debt securities denominated in sterling or euros issued by the U.K. at all times having a term of less than three months to final maturity which are not convertible into any other form of security;
- (b) debt securities denominated in sterling or euros at all times having a term of less than three months to final maturity which are not convertible into any other form of security, rated P-1 (Moody's) or A-1 (S&P) which are not issued or guaranteed by any member of the PNG Group; and
- (c) certificates of deposit denominated in sterling or euros issued by, and acceptances by, banking institutions authorised under applicable legislation of the U.K. which at the time of making such issue or acceptances, have outstanding debt securities rated as provided in paragraph (b) above.

“**Cash Expenses**” means the aggregate of all cash expenses including capital expenditure incurred by PNG in any period (excluding depreciation and interest on Indebtedness).

“**CFADS**” means, for any Calculation Period, Historic Consolidated EBITDA for that period:

- (a) less any replacement capital expenditure as allowed by the Authority and paid during that period;
- (b) less any Company Assessed increase and plus any Company Assessed decrease in Working Capital between the beginning and end of that Calculation Period; and
- (c) less any Taxes paid during that period.

“**CFADS ICR**” means, in relation to any Calculation Period, the ratio of:

- (a) CFADS; to
- (b) Historic Consolidated Interest,

in each case, for that period.

“**Companies Acts**” means the Companies Act 1985, the Companies (Northern Ireland) Order 1986 and the Companies Act 2006 as amended from time to time.

“**Company Assessed**” when used as an adjective in relation to another defined word or phrase means, in respect of any Calculation Period, the relevant value as estimated by PNG in good faith and on a consistent basis with the calculation of such number for the regulatory accounts of PNG.

“**Compliance Certificate**” means a certificate of the Phoenix Financing Group in a form agreed in the Trust Deed certifying compliance with, amongst other things, financial covenants.

“**Conditions**” means the terms and conditions set out in Schedule 1 (*Form of Definitive Bond*) of the Trust Deed as from time to time modified in accordance with the Trust Deed and, with respect to any Bonds represented by the Global Bond, as modified by the provisions of the Global Bond. Any reference to a particularly numbered Condition shall be construed accordingly means, in relation to the Original Bonds, the terms and conditions to be endorsed on the Original Bonds, in the form or substantially in the form set out in Part 2 of Schedule 2 (*Form of Permanent Global Bond*) of the Trust Deed, and, in relation to any Further Bonds, the terms and conditions endorsed on the Bonds in accordance with the supplemental deed relating thereto or substantially in the form set out or referred to in the supplemental deed relating thereto, as any of the same may from time to time be modified in accordance with the Trust Deed and any reference in the Trust Deed to a particular numbered Condition shall be construed in relation to the Original Bonds accordingly and any reference in the Trust Deed to a particular numbered Condition in relation to any Further Bonds shall be construed as a reference to the provision (if any) in the Conditions of such Further Bonds which corresponds to the particular numbered Condition of the Original Bonds.

“**Control**” of one person by another person means:

- (a) the power by that other person (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:
 - (i) cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the person; or
 - (ii) appoint or remove or control the appointment or removal of all, or the majority, of the directors or other equivalent officers of that person; or
- (b) the holding directly or indirectly by the other person beneficially of more than one-half of the issued share capital of the person (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital).

“**Core Business**” means the business of PNG which is regulated pursuant to the Licence.

“**Couponholder**” means the bearer of a Coupon.

“**Coupons**” means the bearer coupons relating to the Bonds or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions.

“**DAV**” means, on any Calculation Date, the sum of (without double counting):

- (a) in relation to any Calculation Date which falls on:
 - (i) 31 December, the Review Determined Depreciated Asset Value as at 1 January of the calendar year after the calendar year in which that Calculation Date falls (for example, if the relevant Calculation Date is 31 December 2010, the relevant Review Determined Depreciated Asset Value would be that value as at 1 January 2011); and
 - (ii) 30 June, the value of the Interpolated Review Determined Depreciated Asset Value,

plus

(b) the amount by which the Allowed Capital Expenditure for the Price Control Period ending on that Calculation Date exceeds or is estimated to exceed the Review Determined Capital Expenditure for that Price Control Period

less

(c) the amount by which the Allowed Capital Expenditure for the Price Control Period ending on that Calculation Date is less or is estimated to be less than the Review Determined Capital Expenditure for that Price Control Period

and the aggregate balance shall be indexed in line with movements in the Retail Price Index in accordance with the methodology used by the Authority to determine Depreciated Asset Value.

“**Depreciated Asset Value**” shall have the meaning given to that term in the Licence.

“**Determination Notice**” shall have the meaning given to that term in the Licence.

“**Directors’ Certificate**” means a certificate substantially in the form of Schedule 4 (*Form of Directors’ Certificate*) to the Trust Deed.

“**Distribution**” means any payment (including any payments of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to any Associate other than payments:

- (a) made between the Issuer and any of the Guarantors;
- (b) pursuant to the Transaction Documents;
- (c) (i) made pursuant to arrangements entered into for management and secondment services, actually delivered, on bona fide arms length terms in the ordinary course of business or (ii) in respect of the properly documented costs of the Issuer and any special purpose vehicles which are Holding Companies of the Holdco Guarantor; provided that the aggregate of (i) and (ii) does not exceed £1,000,000 in any financial year;
- (d) any Permitted Steps;
- (e) to PSL pursuant to and in connection with a Permitted PSL Loan; and
- (f) pursuant to any Permitted Group Services Transfer entered into by a member of the Phoenix Financing Group.

“**Eligible Deposit Bank**” means any bank or financial institution with a short term rating of at least A-1 by S&P or P-1 by Moody's or whose parent or guarantor has such rating.

“**Energy Order**” means The Energy (Northern Ireland) Order 2003, as amended and/or supplemented from time to time.

“**Enforcement Notice**” means the notice issued by the Authority under Article 43 of the Energy Order prior to the confirming or making of a Provisional Order or Final Order.

“**Event of Default**” means an event described in Condition 8 (*Events of Default*) which, if so required by that Condition, has been certified by the Bond Trustee to be, in its opinion, materially prejudicial to the interests of the Bondholders.

“**Excluded Interest**” means, in relation to a Calculation Period, 0 - 12 Month Calculation Period or, as the case may be, 12 - 24 Month Calculation Period, all interest received or receivable (or, as the case may be, projected to be received or receivable) by PNG during that period in respect of:

- (a) any loans made by PNG to PSL; or
- (b) any loans between PNG and any member of the PNG Group.

“**Existing Facilities Agreement**” means the £458,000,000 senior facility agreement dated 7 April 2005 (as last amended on 31 December 2007) between, amongst others, PNG as borrower and Citibank International PLC as agent.

“**Extraordinary Resolution**” means a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast.

“**Finance Documents**” means the Senior Facilities Agreement (and any fee letter or transfer certificate relating thereto), the Security Agreement, the Intercreditor Agreement and any other document designated as such by the facility agent and PNG.

“**Final Order**” means a final order made by the Authority under Article 42(1) of the Energy Order where the Authority is satisfied that PNG is contravening, or is likely to contravene, any relevant condition or requirement and that a final order is necessary to secure compliance with that condition or requirement.

“**FSMA**” means the Financial Services and Markets Act 2000.

“**Further Bonds**” means any bonds of the Issuer constituted in relation to a deed supplemental to the Trust Deed pursuant to Condition 14 (*Further Issues*) and for the time being outstanding or, as the context may require, a specific number thereof and includes any global bond or evidence of indebtedness which has not for the time being been exchanged for such bonds and any replacement bonds issued pursuant to Condition 14 (*Further Issues*).

“**Global Bond**” means the permanent global bond which will represent the Bonds, or some of them, after exchange of the Temporary Global Bond, or a portion of it, substantially in the form set out in Part 2 of Schedule 2 (*Form of Permanent Global Bond*) to the Trust Deed.

“**Group**” means the Holdco Guarantor and its Subsidiaries from time to time.

“**Hedge Counterparty**” means any person which has become a party to the Intercreditor Agreement as a Hedge Counterparty in accordance with the provisions of the Intercreditor Agreement.

“**Hedging Agreement**” means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by an Obligor and a Hedge Counterparty for the purpose of hedging liabilities.

“**Historic Consolidated EBITDA**” means, in respect of a Calculation Period, the sum of:

- (a) an amount equal to the consolidated earnings before interest, tax, depreciation and amortisation of the PNG Group excluding exceptional items for that Calculation Period

plus

- (b) any interest received or receivable from PSL by PNG for that Calculation Period in respect of loans made by PNG to PSL provided that, under the terms of such loans, such interest is payable in cash at least quarterly and payments of interest and/or principal under the relevant loan have not been deferred or capitalised or are in arrear.

“**Historic Consolidated Interest**” means, in relation to a Calculation Period, an amount equal to the aggregate of:

- (a) all interest paid or payable during such Calculation Period on Total Indebtedness (taking into account any Qualifying Hedging Agreements in relation to interest payable in respect of such Indebtedness but taking no account of any other Hedging Agreements or unrealised gains or losses on any derivative instruments or financial instruments)

less

- (b) all interest received or receivable by the PNG Group other than Excluded Interest during that Calculation Period.

“**Historic PMICR**” means, in relation to any Calculation Period, the ratio of:

- (a) Historic PMICR EBITDA; to
- (b) Historic Consolidated Interest,

in each case, for that period.

“**Historic PMICR EBITDA**” means, for any Calculation Period, Historic Consolidated EBITDA for that period:

- (a) plus the amount by which the Z Balance has decreased, or is estimated to decrease, from the beginning of that Calculation Period to the end of that Calculation Period under the conveyance charging methodology calculated in accordance with Condition 2.3 of the Licence;
- (b) less the amount by which the Z Balance has increased, or is estimated to increase, from the beginning of that Calculation Period to the end of that Calculation Period under the conveyance charging methodology calculated in accordance with Condition 2.3 of the Licence;
- (c) less the Annual Depreciation or, as applicable, the estimated Annual Depreciation for that Calculation Period; and
- (d) plus (if the change or estimated change is positive) and minus (if the change or estimated change is negative) the change or estimated change in the Profile Adjustment between the beginning and the end of that Calculation Period, excluding any adjustment of the Profile Adjustment for the preceding Calculation Period for movements in the Retail Price Index.

“**Holding Company**” means a parent undertaking as defined in section 1162 of the Companies Act 2006.

“**Indebtedness**” means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit (including any dematerialised equivalent);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any agreement treated as a finance or capital lease in accordance with generally accepted accounting principles in the jurisdiction of incorporation of PNG;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis (disregarding any recourse for breach of warranty));
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (excluding trade creditors in the ordinary course of business);
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) (without double counting) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs.

“Index-linked Hedging Agreements” means any Hedging Agreement whereby payments are linked to an index.

“Initial Investors” means each of the following direct or indirect shareholders in the Holdco Guarantor: Terra Firma Capital Partners II, L.P-A, Terra Firma Capital Partners II, L.P B, Terra Firma Capital Partners II, L.P-C, Terra Firma Capital Partners II, L.P D, Terra Firma Capital Partners II, L.P-E, Terra Firma Capital Partners II, L.P-F, in each case acting through Terra Firma as general partner together with co-investors whose co-investment is managed by Terra Firma.

“Intercreditor Agreement” means the intercreditor agreement dated on or about the date of the Trust Deed between, *inter alios*, the Issuer, the Guarantors, the Bond Trustee, the Security Trustee and a syndicate of banks, as amended from time to time.

“Interpolated” when used as an adjective in relation to another defined word or phrase, means in respect of any Calculation Date falling on 30 June, the relevant value as derived by interpolation between (i) the relevant value as at 1 January of the calendar year in which the Calculation Date falls and (ii) the relevant value as at 1 January of the following calendar year (for example, if the relevant Calculation Date is 30 June 2011, the relevant value would be determined by interpolating the relevant values as at 1 January 2011 and 1 January 2012).

“Investor Website” means the website maintained by the Issuer (or PNG on its behalf) for the purpose of making available to the Bondholders, subject to appropriate investor acknowledgements, the Investor Website Information.

“Investor Website Information” means the financial statements, each certificate and report required to be delivered to the Bond Trustee under the Trust Deed, notices to Bondholders, and information published by the Rating Agencies with respect to the Bonds.

“Issue Documents” means the documents in relation to issuance of the Bonds including, without limitation, the Bonds, the Trust Deed, the Paying Agency Agreement, the Intercreditor Agreement, the Security Agreement, the Issuer/PNG Loan Agreement and any other document designated as such by the Bond Trustee and any of the Issuer or the Guarantors.

“Kellen Documents” means the Kellen Deed of Covenant, the Carmel Security Document and the Kellen Capital Security Document.

“Kellen Enforcement Event” means an “Enforcement Event” as defined in the Carmel Security Document and the Kellen Capital Security Document and such Enforcement Events include the occurrence of Automatic Acceleration, non-payment of amounts due under the Kellen Deed of Covenant and breach of a material provision of the Kellen Documents.

“Legal Reservations” means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the equivalent legislation in Northern Ireland, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of U.K. stamp duty may be void and defences of set-off or counterclaim;
- (c) a court construing a Security Interest expressed to be created by way of fixed security as being floating security;
- (d) any additional interest imposed pursuant to any relevant agreement may be held to be irrecoverable on the grounds that it is a penalty;

- (e) an English court or a Northern Irish court (where appropriate) may not give effect to any indemnity for legal costs incurred by an unsuccessful litigant; and
- (f) any other reservations or qualifications as to matters of law which are set out in any legal opinion delivered to the Bond Trustee and/or the Joint Lead Managers and Joint Bookrunners.

“**Licence**” means the licence granted to PNG by the Department of Enterprise, Trade and Investment for the conveyance of gas in the Licensed Area (as defined in Schedule 1 of PNG’s Licence) as modified from time to time.

“**Lock-Up Event**” means, at any Calculation Date:

- (a)
 - (i) when the Net Debt/TRV Ratio as calculated in accordance with the Trust Deed, is at the relevant Calculation Date greater than 77.5 per cent.;
 - (ii) when the Net Debt/DAV Ratio as calculated in accordance the Trust Deed, is at the relevant Calculation Date greater than 100 per cent.;
 - (iii) when the Historic PMICR, the Projected 0 - 12 PMICR or the Projected 12 - 24 PMICR as calculated in accordance with the Trust Deed, is at the relevant Calculation Date less than 1.4:1;
 - (iv) when the CFADS ICR as calculated in accordance with the Trust Deed is at the relevant Calculation Date less than 1.3:1; or
- (b) an Event of Default or Restructuring Event has occurred and is continuing; or
- (c) the rating of PNG is below Baa3 by Moody’s or BBB- by Fitch; or
- (d) an enforcement order or compliance order is made against PNG which would reasonably be expected to lead to (i) the loss of the Licence or (ii) a fine levied against PNG which has or is reasonably likely to have a Material Adverse Effect; or
- (e) legislation is enacted which has a Material Adverse Effect and the rating of PNG by either Rating Agency is placed for possible downgrade, negative watch or negative outlook; or
- (f) as at the most recently occurring Calculation Date, the aggregate amount of all accretions by way of indexation to the notional amount of any Index-linked Hedging Agreement exceeds 6 per cent. of TRV.

“**London Stock Exchange**” means London Stock Exchange plc.

“**Market**” means the EEA Regulated Market of the London Stock Exchange.

“**Material Adverse Effect**” means a material adverse effect on:

- (a) the business or financial condition of the Group taken as a whole;
- (b) the ability of the Issuer or the Guarantors (taken as a whole) to perform their payment obligations under any of the Issue Documents;
- (c) the ability of each of the Issuer and the Guarantors to perform its material obligations (other than payment obligations) under any of the Issue Documents; or
- (d) subject to the Legal Reservations, the validity or enforceability of any of the obligations of the Phoenix Financing Group under any Issue Document.

“**Net Debt**” means, at any Calculation Date:

- (a) Total Indebtedness as at that date;
- less

- (b) Cash and Cash Equivalent Investments of the PNG Group at that date, to the extent that such Cash and Cash Equivalent Investments are owned by the PNG Group.

“**Net Debt/DAV Ratio**” means, in relation to any Calculation Date, the ratio of:

- (a) Net Debt; to
- (b) DAV,

in each case, as at that Calculation Date.

“**Net Debt/TRV Ratio**” means, in relation to any Calculation Date, the ratio of:

- (a) Net Debt; to
- (b) TRV,

in each case, as at that Calculation Date.

“**Non-Core Business**” means any business of PNG other than the Core Business.

“**Operating Expenditure**” shall have the meaning given to that term in the Licence.

“**Original Bonds**” means bearer bonds substantially in the form set out in Schedule 2 (*Form of Temporary Global Bond*) of the Trust Deed comprising the £275,000,000 5.50 per cent. Guaranteed Bonds due 2017 constituted by the Trust Deed and for the time being outstanding or, as the context may require, a specific number of them, and includes any replacement Bonds issued pursuant to the Conditions.

“**Paying Agency Agreement**” means the agreement referred to as such in the Conditions, as altered from time to time, and includes any other agreements approved in writing by the Bond Trustee appointing Successor Paying Agents or altering any such agreements.

“**Paying Agents**” means the banks (including the Principal Paying Agent) referred to as such in the Conditions or any Successor Paying Agents, in each case at their respective specified offices.

“**Penalty Notice**” means any notice issued by the Authority under Article 45 of the Energy Order in order to impose a penalty on PNG.

“**Permitted Disposal**” means any sale, lease, licence, transfer or other disposal:

- (a) of assets by PNG in its ordinary course of trade and on arm's length terms entered into for bona fide commercial purposes for the benefit of its business;
- (b) for cash and on arm's length terms by PNG of any (i) surplus plant or material and any (ii) obsolete or worn-out assets which in each case in the reasonable opinion of PNG are not required for the efficient operation of its business or which are to be replaced by other similar assets comparable or superior as to type, value or quality;
- (c) by PNG of Cash where such disposal is not otherwise prohibited by the Trust Deed;
- (d) by PNG of assets, the disposal of which is permitted by the Transaction Documents;
- (e) of Cash Equivalent Investments by PNG on arm's length terms for cash or in exchange for other Cash Equivalent Investments;
- (f) by any member of the Phoenix Financing Group arising as a result of any Permitted Security or (if of cash) any Permitted PSL Loan;
- (g) of assets not exceeding £2,500,000 in any financial year by a member of the Phoenix Financing Group on arm's length basis in return for or in exchange of or simultaneous with acquisitions referred to in paragraph (h) below;

- (h) of any asset by a member of the Group (the “**Disposing Company**”) to another member of the Group (the “**Acquiring Company**”), but if:
 - (i) the Disposing Company is a member of the Phoenix Financing Group, the Acquiring Company must also be a member of the Phoenix Financing Group;
 - (ii) the Disposing Company had given a Security Interest over the asset, the Acquiring Company must give an equivalent Security Interest over that asset; and
 - (iii) the Disposing Company is a Guarantor, the Acquiring Company must be a Guarantor guaranteeing at all times an amount no less than that guaranteed by the Disposing Company;
- (i) made by PNG within the Permitted Non-Core Business;
- (j) made pursuant to Permitted Steps;
- (k) made by the Holdco Guarantor of shares in PNG as part of a Permitted Reorganisation;
- (l) made by a member of the Phoenix Financing Group pursuant to a Permitted Group Services Transfer;
- (m) made by a member of the Phoenix Financing Group with the prior written consent of the Bond Trustee or the prior approval of Bondholders by way of an Extraordinary Resolution of holders of the Bonds then outstanding; and
- (n) by PNG of assets for cash where the net consideration receivable (when aggregated with the net consideration receivable for any other sale, lease, licence, transfer or other disposal not allowed under the preceding paragraphs or as a Permitted Transaction) does not exceed £7,500,000 for so long as any Bonds are outstanding and does not exceed £2,500,000 in any financial year of PNG.

“**Permitted Group Services Transfer**” means one or more transfers of employees, officers of PNG, office equipment or business administration apparatus by any member of the Group for the purposes of any Affiliate providing to the Group and its Affiliates common operating, administrative and business services (including, without limitation, services relating to IT, human resources, contracts and procurement, finance, business development, corporate affairs, marketing and regulation), provided such transfer is consistent with the arrangements required by, or is agreed with, the Authority;

“**Permitted Non-Core Business**” means any Non-Core Business which is (i) prudent in the context of the overall business of PNG and continues to be so for the duration of such business (ii) is not reasonably likely to be objected to by the Authority (iii) does not give rise to any material actual or contingent liabilities for PNG that are not or would not be properly provided for in its financial statements, (iv) the average Cash Expenses of such business during the current Calculation Period and, if applicable, the immediately two preceding Calculation Periods do not exceed 2 per cent. of the average Cash Expenses of PNG for such Calculation Periods and (v) the aggregate liabilities of PNG for the Non-Core Business do not exceed 1 per cent. of TRV at any time.

“**Permitted PSL Loan**” means any loan or sequence of loans made by PNG to PSL:

- (a) which is permitted under the terms of the Authority PSL Loan Letter;
- (b) which is made on arm’s length commercial terms;
- (c) where the aggregate outstandings (including principal, interest, fees and other amounts) is, at any time, less than 5 per cent. of TRV;
- (d) which is for the purpose of funding:
 - (i) working capital purposes; or
 - (ii) the cash collateralisation of the PSL LC Facility in an amount no greater than £10,000,000;

- (e) for which interest receivable from PSL by PNG is greater than the cost of funds of PNG in making the loan to PSL;
- (f) which is on terms such that, if whilst a Lock-Up Event has occurred and is continuing and PSL makes a payment other than a payment pursuant to a Permitted Step (including any payment of distributions, dividends, bonus issues, return of capital, fees, interest, principal or other amounts whatsoever) (by way of loan or repayment of any loan or otherwise) (in cash or in kind) to (a) any person who has a Controlling interest in it; or (b) any person who is Controlled by it, or in each case any Affiliate of such person, then (x) each loan made by PNG to PSL must be prepaid in full; (y) each loan agreement between PNG and PSL must be cancelled; and (z) no further loans from PNG to PSL shall be permitted; and
- (g) which is on terms such that all outstanding loans must be prepaid and that no further loans may be made by PNG to PSL in the event that either (i) Kellen or a member or members of the Terra Firma Group cease to control PSL directly or indirectly or (ii) any person or group of persons Acting in Concert gains direct or indirect control of PSL other than a member or members of the Terra Firma Group or Kellen.

“**Permitted Reorganisation**” means, at any time, the novation of the role of Guarantor from the Holdco Guarantor to a Replacement Holdco Guarantor, provided that:

- (a) as a result of such substitution, PNG is owned directly and beneficially 100 per cent. by the Replacement Holdco Guarantor;
- (b) as a result of such substitution, the Issuer is owned directly and beneficially 100 per cent. by PNG; and
- (c) at the time of such substitution, no Lock-Up Event has occurred and is continuing.

“**Permitted Steps**” means any payments, corporate actions or steps entered into by a member of the Phoenix Financing Group or PSL pursuant to the Steps Paper.

“**Permitted Security**” has the meaning given to it in Condition 3 (*Negative Pledge*).

“**Permitted Transaction**” means:

- (a) any disposal required or permitted, Indebtedness incurred, guarantee, indemnity or Permitted Security given, or other transaction arising, under the Transaction Documents or, in the case of the Holdco Guarantor, the Kellen Documents;
- (b) transactions (other than the granting or creation of Security Interests or the incurring or permitting to subsist of Indebtedness) conducted in the ordinary course of trading on arm’s length terms;
- (c) the solvent liquidation, or reorganisation of any member of the Phoenix Financing Group so long as any payments or assets distributed as a result of such liquidation or reorganisation are distributed to other members of the Phoenix Financing Group;
- (d) any Permitted Steps;
- (e) any Permitted Reorganisation;
- (f) any transaction entered into with the prior written consent of the Bond Trustee or the prior approval of Bondholders by way of an Extraordinary Resolution of holders of the Bonds then outstanding; or
- (g) any Permitted Group Services Transfer entered into by a member of the Phoenix Financing Group.

“**Phoenix Financing Group**” means the Holdco Guarantor, PNG and the Issuer.

“**PNG Distribution Code**” means the set of rules and criteria that prescribe the arrangements for the conveyance of gas by PNG in the Licensed Area.

“**PNG Group**” means PNG and its Subsidiaries for the time being.

“Potential Event of Default” means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*) become an Event of Default.

“Price Control Period” means, in relation to any Calculation Date, each period beginning on the date of commencement of the Review period covered by the then applicable Determination Notice and ending on and including that Calculation Date.

“Principal Paying Agent” means the bank named as such in the Conditions or any successor Principal Paying Agent.

“Profile Adjustment” shall have the meaning given by and be determined in accordance with Condition 2.3 of the Licence.

“Projected 0 – 12 PMICR” means, in relation to any 0 - 12 Month Calculation Period, the ratio of:

- (a) Projected PMICR EBITDA; to
- (b) Projected Consolidated Interest,

in each case, for that period.

“Projected 12 – 24 PMICR” means, in relation to any 12 – 24 Month Calculation Period, the ratio of:

- (a) Projected PMICR EBITDA; to
- (b) Projected Consolidated Interest,

in each case, for that period.

“Projected Consolidated EBITDA” means, in respect of a 0 - 12 Month Calculation Period or, as the case may be, a 12 - 24 Month Calculation Period, an amount equal to:

- (a) the projected consolidated earnings before interest, tax, depreciation and amortisation of the PNG Group excluding exceptional items for that 0 - 12 Month Calculation Period or 12 - 24 Month Calculation Period (as applicable);

plus

- (b) any interest projected to be received or receivable from PSL by PNG for that 0 - 12 Month Calculation Period or 12 - 24 Month Calculation Period (as applicable) in respect of loans made by PNG to PSL provided that, under the terms of such loans, such interest is payable in cash at least quarterly and payments of interest and/or principal under the relevant loan have not been deferred or capitalised or are in arrear.

“Projected Consolidated Interest” means, in relation to a 0 - 12 Month Calculation Period, or, as the case may be, a 12 - 24 Month Calculation Period, an amount equal to the aggregate of:

- (a) all projected interest paid or payable during that 0 - 12 Month Calculation Period, or, 12 - 24 Month Calculation Period (as applicable) on Total Indebtedness (taking into account any projected Qualifying Hedging Agreements in relation to interest payable in respect of such Indebtedness but taking no account of other Hedging Agreements or any projected unrealised gains or losses on any derivative instruments or financial instruments

less

- (b) all projected interest received or receivable by the PNG Group other than projected Excluded Interest during that 0 - 12 Month Calculation Period or 12 - 24 Month Calculation Period (as applicable).

“Projected PMICR EBITDA” means for any 0 - 12 Month Calculation Period or, as the case may be, a 12 - 24 Month Calculation Period, Projected Consolidated EBITDA for that period:

- (a) plus the amount projected to be the amount by which the Z Balance has decreased, or is estimated to decrease, from the beginning of that period to the end of that Calculation Period under the conveyance charging methodology calculated in accordance with Condition 2.3 of the Licence;
- (b) less the amount projected to be the amount by which the Z Balance has increased, or is estimated to increase, from the beginning of that period to the end of that Calculation Period under the conveyance charging methodology calculated in accordance with Condition 2.3 of the Licence;
- (c) less the projected Annual Depreciation for that 0 - 12 Month Calculation Period or 12 - 24 Month Calculation Period (as applicable); and
- (d) plus (if the projected change is positive) and minus (if the projected change is negative) the projected change in the Profile Adjustment between the beginning and the end of that 0 - 12 Month Calculation Period or, as the case may be, 12 - 24 Month Calculation Period but, for these purposes, excluding any projected adjustment of the Profile Adjustment for the preceding 0 - 12 Month Calculation Period or 12 - 24 Month Calculation Period (as applicable) for movements in the Retail Price Index.

“**Provisional Order**” means, where it appears to the Authority that PNG is contravening, or is likely to contravene, any relevant condition or requirement and that a provisional order is necessary to secure compliance with that condition or requirement, a provisional order made by the Authority under Article 42(2) of the Energy Order.

“**PSL LC Facility**” means the letter of credit facility entered into by PSL with The Royal Bank of Scotland plc or any replacement entity on or after the Closing Date.

“**Qualifying Hedging Agreements**” means all Hedging Agreements other than Index-linked Hedging Agreements.

“**Quasi Security Interest**” has the meaning given to that term in Condition 3 (*Negative Pledge*).

“**Rating Agencies**” means Fitch Ratings Ltd and Moody’s Investors Service Limited (each, a “**Rating Agency**”).

“**Regulatory Put Event**” has the meaning given to that term in Condition 5(b) (*Regulatory Put*).

“**Replacement Holdco Guarantor**” means a party which replaces the Holdco Guarantor in accordance with the provisions of the Trust Deed.

“**Restructuring Event**” has the meaning given to that term in Condition 5(b) (*Regulatory Put*).

“**Retail Price Index**” or “**RPI**” means the Retail Price Index published by the Office for National Statistics and used by the Authority from time to time.

“**Review**” shall have the meaning given to that term in the Licence.

“**Review Determined**” when used as an adjective in relation to another defined word or phrase means, in respect of any Calculation Period, the relevant value as derived in accordance with the methodology in Condition 2.3 of the Licence on an annual basis based on the determination by the Authority and, if applicable, as modified by the Competition Commission pursuant to the Review applicable to the Price Control Period in which the Calculation Period falls.

“**S&P**” means Standard & Poor’s Rating Services or any successor to the rating business of Standard & Poor’s Rating Services.

“**Security Interest**” has the meaning given to that term in Condition 3 (*Negative Pledge*).

“**Security Trustee**” means Citicorp Trustee Company Limited.

“**Steps Paper**” means the steps paper entitled “PNG Refinancing – Steps Paper” prepared by the Auditors describing the Group and the restructuring in the agreed form dated on or about 3 November 2009 and initialled by PNG for the purposes of identification.

“**Subordinated Liabilities**” means the liabilities subordinated pursuant to the Intercreditor Agreement.

“**Subsidiary**” means a “subsidiary undertaking” as defined in Section 1162 of the Companies Act 2006.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest payable in connection with late or non-payment of the relevant amount).

“**Temporary Global Bond**” means the temporary global bond which will represent the Bonds on issue substantially in the form set out in Part 1 of Schedule 2 (*Form of Temporary Global Bond*) of the Trust Deed.

“**Terra Firma**” means Terra Firma Investments (GP) 2 Limited of P.O. Box 543, First Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ and each of its Affiliates from time to time (including any other fund managed and/or advised by any such entity or Terra Firma Capital Partners Limited).

“**Terra Firma Group**” means Terra Firma and the Initial Investors.

“**Total Indebtedness**” means, at any date, the aggregate of any Indebtedness (including accretions by indexation to the notional amount under any Index-linked Hedging Agreement) of any member of the PNG Group (other than:

- (a) any Indebtedness incurred by a member of the Phoenix Financing Group pursuant to or in connection with any pooling agreements in place with an Acceptable Bank, but only to the extent of offsetting credit balances of that member of the Phoenix Financing Group pursuant to such pooling agreements;
- (b) in connection with trade debt of PNG incurred in the ordinary course of business outstanding for less than 120 days;
- (c) any contingent Indebtedness under paragraphs (h) or (j) of the definition of Indebtedness;
- (d) Subordinated Liabilities; and
- (e) any Indebtedness between PNG and any member of the Phoenix Financing Group.

“**Transaction Documents**” means the Issue Documents, the Finance Documents, the Transaction Security Documents and, in each case, any agreements entered into in connection therewith and any other document specified as such by the Security Trustee or designated as such under the Intercreditor Agreement as a result of the incurrence of further secured Indebtedness.

“**Transaction Security Documents**” means the Security Agreement and any other security agreement entered into pursuant to a Permitted Reorganisation.

“**Treasury Transaction**” means any derivative transaction protecting against or benefiting from fluctuations in any rate or price.

“**Trust Deed**” means the Trust Deed (as from time to time altered in accordance with the Trust Deed) and any other document executed in accordance with the Trust Deed (as from time to time so amended and/or supplemented) and expressed to be supplemental to the Trust Deed.

“**TRV**” means, on any Calculation Date, the total regulatory value being the sum of (without double counting):

- (a) the DAV as at that Calculation Date;

plus

- (b) (i) in relation to any Calculation Date falling on 31 December, the Review Determined Profile Adjustment as at that Calculation Date and (ii) in relation to any Calculation Date falling on 30 June, the Interpolated Review Determined Profile Adjustment as at that Calculation Date;

plus

- (c) in relation to any Calculation Date, the Company Assessed Working Capital as at that Calculation Date (for the avoidance of doubt, Company Assessed Working Capital may be (i) a positive number, in which case its addition will increase the absolute value of TRV or (ii) a negative number, in which case its addition will reduce the absolute value of TRV);

plus

- (d) in relation to any Calculation Date, the Company Assessed Capital Creditors as at that Calculation Date (for the avoidance of doubt, Company Assessed Capital Creditors will be a negative number, in which case its addition will reduce the absolute value of TRV);

plus

- (e) the Allowed Adjustment to Operating Expenditure for that Price Control Period (for the avoidance of doubt Allowed Adjustment to Operating Expenditure may be (i) a positive number, in which case its addition will increase the absolute value of TRV or (ii) a negative number, in which case its addition will reduce the absolute value of TRV),

after adjustments, in the case of the values referred to in paragraphs (b), (c), (d) and (e) above, for indexation in line with movements in the Retail Price Index in accordance with the methodology used by the Authority to determine such values.

“**Working Capital**” shall have the meaning given and be determined in accordance with Condition 2.3 of the Licence.

“**Z Balance**” means at any point in time, the amount which, applying the relevant methodology set out in Condition 2.3 of the Licence, PNG estimates as being the accumulated under-recovery or over-recovery of revenues in respect of the Core Business arising due to differences between the maximum amount recoverable under the conveyance charging methodology calculated in accordance with Condition 2.3 of the Licence and the actual revenues of PNG in respect of the Core Business.

INTERCREDITOR, ENFORCEMENT AND THE SENIOR FACILITIES AGREEMENT

The following is a summary of certain terms of the Intercreditor Agreement and the Senior Facilities Agreement. The information set out below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the terms of the Issue Documents and the Intercreditor Agreement.

Intercreditor Agreement

Shared Security

The Secured Creditors, which include the Bond Trustee (on its own behalf and on behalf of the Bondholders) and the Senior Lenders, share in the Share Charge and the Floating Charge created by the Security Agreement. The Secured Creditors (including the Bond Trustee for and on behalf of the Bondholders), together with the Issuer and the Guarantors, will enter into the Intercreditor Agreement on the Closing Date which will regulate, amongst other things:

- (a) the claims of the Secured Creditors;
- (b) the exercise, acceleration and enforcement of rights by the Secured Creditors;
- (c) the creation of a standstill period and the rights of the Secured Creditors during that period;
- (d) amendments, waivers and releases in respect of Intercreditor Agreement and the Security Agreement; and
- (e) voting by the Secured Creditors.

The Intercreditor Agreement will not regulate amendments, waivers or releases in respect of the Issue Documents, the Senior Facilities Agreement or any other underlying credit documents that may be entered into from time to time between a Secured Creditor and the Issuer and/or the Guarantors (the Issue Documents, the Senior Facilities Agreement and any other underlying credit documents from time to time being the “**Underlying Credit Documents**”).

Other future credit providers, including any Hedge Counterparties, may become Secured Creditors from time to time by acceding to the Intercreditor Agreement as Secured Creditors.

Secured Creditors and Secured Creditor Representatives

All Secured Creditors must be party to the Intercreditor Agreement (either directly, or through, in the case of the Bondholders and the Couponholders, the Bond Trustee). The Intercreditor Agreement will allow for the following creditors to accede to the Intercreditor Agreement as Secured Creditors by way of an accession deed:

- (a) transferees of lenders under the Senior Facilities Agreement;
- (b) lenders under any new bank facilities (including transferees);
- (c) Hedge Counterparties; and
- (d) bond trustees on behalf of the bondholders of a new series of bonds.

For the purposes of the Intercreditor Agreement, the Secured Creditors will be represented as follows:

- (a) bondholders will be represented by the bond trustee under the relevant series of bonds;
- (b) lenders under facilities will be represented by the relevant agent under the facilities agreement; and
- (c) Hedge Counterparties will represent themselves,

(each, a “**Secured Creditor Representative**”).

Claims of the Secured Creditors

The Intercreditor Agreement will regulate the claims of the Secured Creditors. Amounts recovered from time to time by the Security Trustee in connection with the realisation or enforcement of the Security Interest created pursuant to the Security Agreement are applied in the following order:

- (a) **first**, on a pro rata basis:
 - (i) in payment of all fees, costs, charges, expenses and liabilities (including any taxes required to be paid) incurred by or on behalf of the Security Trustee, any receiver or any delegate appointed by the Security Trustee in connection with carrying out its functions under the Intercreditor Agreement and the other Transaction Documents (including in connection with any realisation or enforcement of the Security Agreement); and
 - (ii) in payment or satisfaction of the fees, costs, charges, expenses and liabilities including any taxes required to be paid properly incurred by the Bond Trustee and any other bond trustee and any agent appointed by it or them in carrying out its or their functions under the Intercreditor Agreement and/or the applicable bond documents;
- (b) **second**, in payment or satisfaction of the fees, costs, charges, expenses and liabilities properly incurred by the facility agent in respect of the Senior Facilities Agreement and any other agent in carrying out its functions under the Intercreditor Agreement and/or the Underlying Credit Documents applicable to it;
- (c) **third**, on a pro rata basis in payment to
 - (i) the Bond Trustee (on behalf of the Bondholders);
 - (ii) any bond trustee (on behalf of additional bondholders);
 - (iii) the facility agent in respect of the Senior Facilities Agreement (on behalf of the Senior Lenders);
 - (iv) any agent (on behalf of the lenders under any additional loan agreement); and
 - (v) each Hedge Counterparty,for application (in accordance with the terms of the relevant Underlying Credit Documents) towards the discharge of the Secured Liabilities;
- (d) **fourth**, if the Security Trustee shall have received written notice from the Issuer and the Guarantors that none of the Issuer and the Guarantors is under any further actual or contingent liability under any Transaction Document, in payment to any person to whom the Security Trustee is obliged to pay in priority to any of the Issuer and the Guarantors, as notified in writing by any member of the Phoenix Financing Group to the Security Trustee; and
- (e) **fifth**, the balance, if any, in payment to the Issuer and the Guarantors (as shall be confirmed in writing to the Security Trustee by any of the Issuer and the Guarantors) for application by the Issuer or, as the case may be, a Guarantor in its discretion, including if applicable and so decided, towards discharge of the Subordinated Liabilities.

“**Secured Liabilities**” means all the liabilities and all other present and future obligations at any time due, owing or incurred by any member of the Phoenix Financing Group to any Secured Creditor under the Transaction Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

Enforcement action and standstill on enforcement action

Immediately upon notification to the Security Trustee by a Secured Creditor Representative that an Event of Default has occurred under the relevant Underlying Credit Documents in respect of which it is the Secured Creditor Representative, a standstill period will automatically commence (the “**Standstill Period**”). During the Standstill Period no action may be taken by, or on behalf of, a Secured Creditor to enforce its claims (this includes acceleration and steps to enforce the Transaction Security created pursuant to the Security Agreement or to initiate insolvency proceedings), other than action taken by, or on behalf of, a Hedge Counterparty pursuant to a Permitted Hedge Termination Event.

The Intercreditor Agreement will set out that the following events (or event analogous to such events) constitute “**Permitted Hedge Termination Events**” in respect of a Hedging Agreement:

- (a) failure to pay;
- (b) bankruptcy;
- (c) illegality;
- (d) tax event;
- (e) tax event upon merger; or
- (f) any part of a loan or bond facility is prepaid, cancelled or repaid prior to its maturity resulting in PNG being over-hedged such that it would not be in compliance with or prohibited by any covenant in any Underlying Credit Document in respect of over-hedging.

The Standstill Period will end on the earlier of:

- (a) six months from the commencement of the Standstill Period;
- (b) the date upon which the Majority Secured Creditors consent in writing to end the Standstill Period;
- (c) (following the expiry of any relevant grace periods) (1) (x) non-payment of scheduled amounts of principal or interest or scheduled payments due under hedging agreements or (y) the occurrence of an insolvency related event of default under an Underlying Credit Document (each a “**Major Event of Default**”) and (2) the relevant Secured Creditor Representative having notified the Security Trustee that the requisite majority of the Secured Creditors in respect of the relevant Underlying Credit Document(s) wish to accelerate their liabilities; and
- (d) the remedying or waiver of the relevant Event of Default in accordance with the Underlying Credit Documents following which each relevant Secured Creditor Representative shall notify the Security Trustee of such remedy or waiver (“**Cure**”).

Following the end of the Standstill Period (except for Cure), the liabilities of all Secured Creditors will automatically be accelerated (“**Automatic Acceleration**”) and, subject to receiving instructions from any Secured Creditor Representative (in accordance with the terms of the relevant Underlying Credit Documents) and such indemnities, pre-funding or security as it may require, the Security Trustee shall enforce the Security without need for further instruction.

Amendments/Waivers and releases under the Intercreditor Agreement or the Security Agreement

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Security Agreement may be made except with the consent of the Majority Secured Creditors and subject to the Entrenched Rights of each Secured Creditor.

The Intercreditor Agreement will set out that the following constitute “**Entrenched Rights**” of the Secured Creditors:

- (a) any amendment or waiver which would result in an increase in or would adversely modify the obligations or liabilities of a Secured Creditor or materially reduce the rights of a Secured Creditor under the Intercreditor Agreement;
- (b) any amendment or waiver which would result in any release of the Transaction Security (unless at least equivalent replacement security is taken at the same time or such release is permitted in accordance with the Intercreditor Agreement or the Security Agreement);
- (c) in respect of the Transaction Security, any amendment or waiver which would adversely alter the rights of priority of or enforcement by a Secured Creditor;
- (d) any amendment or waiver which would change any of the Entrenched Rights;
- (e) any amendment or waiver which would change the Secured Creditor decision making process contained in the Intercreditor Agreement; or
- (f) any amendment or waiver which relates to or constitutes an entrenched right of the Bondholders or any bondholders in respect of any other series of bonds issued by the Issuer.

If an Entrenched Right of a Secured Creditor is affected, the relevant Secured Creditor’s approval must be obtained before the proposed change can be made. No Entrenched Right will prevent enforcement or acceleration instructions or prevent anything expressly permitted by the relevant Underlying Credit Documents.

The relevant Secured Creditors may agree to amend or waive the terms of the Underlying Credit Documents in accordance with the terms of those Underlying Credit Documents without the consent of any Secured Creditors that are not party to such documents.

Voting

The Intercreditor Agreement will specify that Secured Creditor Representatives may give instructions or directions in respect of:

- (a) the ending of the Standstill Period;
- (b) the exercise by the Security Trustee of any of its rights, power and discretions; and
- (c) subject to Entrenched Rights, amendments, waivers and releases under the Intercreditor Agreement and the Security Agreement.

The Security Trustee may request and act on instructions given by such Secured Creditor Representative or Secured Creditor Representatives representing at least in aggregate 66 2/3 per cent. of Total Commitments (the “**Majority Secured Creditors**”).

“**Total Commitments**” means:

- (a) prior to the taking of enforcement action (i) the total commitments under any Underlying Credit Documents which are bank facilities, plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under any Underlying Credit Documents which constitute bonds; and

- (b) following the taking of enforcement action, (i) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under any Underlying Credit Documents which constitute bonds or any Underlying Credit Documents which constitute bank facilities, plus (ii) the aggregate Positive Value of any terminated hedging agreements.

“**Positive Value**” means, in respect each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from PDHL, PNG or the Issuer (as applicable) following termination of the relevant Hedging Agreements due to enforcement action.

In respect of Underlying Credit Documents which constitute a series of bonds the holders of such bonds will be represented in their entirety by the relevant bond trustee (100 per cent. of principal outstanding will be voted for or against based on the voting mechanics in the relevant trust deed).

In respect of Underlying Credit Documents which are bank facilities, the lenders will be represented in their entirety by the agent in respect of the relevant facility (100 per cent. of commitments or principal outstanding (as the case may be) will be voted for or against based on the voting mechanics in the relevant facility agreement).

In respect of the Hedge Counterparties, each Hedge Counterparty will vote the aggregate Positive Value under the relevant hedging agreement.

PDHL Default

If a default occurs pursuant to the terms of the Intercreditor Agreement as a result of any act or omission or state of affairs in existence which, in each case, relates only to a member of the Group other than PNG or the Issuer, such default shall be deemed not to have occurred in relation to PNG and the Issuer and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement action shall arise or may be taken by the Security Trustee against PNG or the Issuer as a consequence thereof. This provision shall not operate to limit any rights or remedies against a member of the Group other than PNG or the Issuer.

Senior Facilities Agreement

On the Closing Date, the Senior Lenders will be Secured Creditors in respect of the Senior Facilities Agreement. The Senior Facilities Agreement will contain representations and warranties together with covenants and events of default that are, broadly, more extensive than those contained in the terms and conditions of the Bonds and in the Trust Deed. For example, the Senior Facilities Agreement will contain:

- (a) events of default in respect of the breach of an interest cover covenant, nationalisation, repudiation of contracts, litigation and material regulatory changes;
- (b) restrictions on acquisitions, disposals, mergers, granting of credit, incurrence of debt and the granting of guarantees;
- (c) covenants in respect of insurance and maintenance of assets; and
- (d) representations and warranties,

that are not contained in the Issue Documents.

As a result it is possible that the Standstill Period may be entered into as a result of the Senior Lenders calling an event of default under the Senior Facilities Agreement at a time when no state of affairs that could lead to an Event of Default under the Issue Documents exists. Only the Senior Lenders would be able to waive such an event of default or confirm to the Security Trustee that such event of default has been remedied. Following the expiry of the Standstill Period (except for Cure) the liabilities under the Bonds would be automatically

accelerated as described in “*Intercreditor Agreement – Enforcement action and standstill on enforcement action*” above.

TERMS AND CONDITIONS OF THE BONDS

The following are the terms and conditions substantially in the form in which they will be endorsed on the Bonds:

The issue of £275,000,000 5.50 per cent. Guaranteed Bonds due 2017 (the “**Bonds**”) was authorised by a resolution of the Board of Directors of Phoenix Natural Gas Finance PLC (the “**Issuer**”) passed on 8 October 2009.

The Bonds are constituted by a Trust Deed (the “**Trust Deed**”) dated on or about 3 November 2009 (the “**Closing Date**”) between the Issuer, Phoenix Natural Gas Limited (“**PNG**”), Phoenix Distribution Holdings Limited (“**PDHL**”, and any successor guarantor of PDHL, the “**Holdco Guarantor**”) (PNG and the Holdco Guarantor together, the “**Guarantors**” and each a “**Guarantor**”) and Citicorp Trustee Company Limited (the “**Bond Trustee**” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds (the “**Bondholders**”).

These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of (i) the Trust Deed, which includes the form of the Bonds and the coupons relating to them (the “**Coupons**”), (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated the Closing Date between the Issuer, the Guarantors, the Bond Trustee and the initial principal paying agent (the “**Principal Paying Agent**”) and the other paying agents for the time being (the “**Paying Agents**”, which expression shall include the Principal Paying Agent), (iii) the security agreement (the “**Security Agreement**”) dated the Closing Date between PDHL and Citicorp Trustee Company Limited (the “**Security Trustee**”), and (iv) an intercreditor agreement dated the Closing Date between, amongst others, the Issuer, the Guarantors, the Bond Trustee, the Security Trustee and certain banks as lenders to PNG (the “**Intercreditor Agreement**”). The rights of the Bondholders and Couponholders are subject to the Intercreditor Agreement.

Copies of the Trust Deed, the Paying Agency Agreement, the Security Agreement, the Intercreditor Agreement and the intra-group loan agreement dated the Closing Date between the Issuer and PNG (together the “**Issue Documents**”) are available for inspection during usual business hours at the specified offices from time to time of the Principal Paying Agent.

The Bondholders and the holders of the Coupons (whether or not attached to the relevant Bonds) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Issue Documents.

Capitalised terms used but not defined in these terms and conditions have the meaning given to them in the Trust Deed.

1 Form, Denomination and Title

- (a) **Form and Denomination:** The Bonds are serially numbered and in bearer form in the denomination of £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000, each with Coupons attached on issue.
- (b) **Title:** Title to the Bonds and Coupons passes by delivery. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status and Guarantee

- (a) **Status of the Bonds:** The Bonds and Coupons constitute unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, save for such exceptions as may be provided by

applicable legislation, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

- (b) **Guarantee:** Each Guarantor unconditionally and irrevocably jointly and severally guarantees that if the Issuer does not pay any sum payable by it under the Trust Deed, the Bonds or the Coupons by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), then such Guarantor will pay that sum to or to the order of the Bond Trustee. Their obligations in that respect are contained in the Trust Deed.
- (c) **Status of the PNG Guarantee:** The payment obligations of PNG in respect of the applicable guarantee (the “**PNG Guarantee**”) constitute direct, unsecured and unconditional obligations of PNG. PNG has not created any security in respect of the PNG Guarantee.
- (d) **Security and status of the Holdco Guarantee:** The payment obligations of PDHL in respect of the applicable guarantee (the “**Holdco Guarantee** and, together with the PNG Guarantee, “**Guarantees**”) constitute direct, secured and unconditional obligations of PDHL. PDHL has, pursuant to the Security Agreement, given security to the Security Trustee in respect of its obligations under the Holdco Guarantee. Enforcement of the security created pursuant to the Security Agreement is subject to the Intercreditor Agreement. In the event of a replacement of PDHL or its replacement guarantor with a new guarantor as part of a Permitted Reorganisation, the new guarantor will be required under the Trust Deed to enter into a security agreement with the Security Trustee on substantially the same terms as the Security Agreement to secure its obligations under the Holdco Guarantee.

3 Negative Pledge

- (a) The Issuer and the Guarantors shall not create or permit to subsist any Security Interest or Quasi Security Interest over any of its assets other than in respect of Permitted Security.

In this Condition 3:

“**Existing Facilities Agreement**” means the £458,000,000 senior facility agreement dated 7 April 2005 (as amended on 31 December 2007) between, amongst others, PNG as borrower and Citibank International PLC as agent.

“**Hedge Counterparty**” means any person which has become a party to the Intercreditor Agreement as a Hedge Counterparty in accordance with the provisions of the Intercreditor Agreement.

“**Hedging Agreement**” means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Issuer or Guarantors and a Hedge Counterparty for the purpose of hedging liabilities.

“**Permitted Security**” means:

- (a) any Security Interest or Quasi Security Interest over or affecting any asset acquired on arm's length terms by PNG (in compliance with the Issue Documents) after the Closing Date and subject to which such asset is acquired provided that, in any case:
 - (i) such Security Interest or Quasi Security Interest was not created in contemplation of the acquisition of such asset by PNG;
 - (ii) the principal amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by PNG; and
 - (iii) such Security Interest or Quasi Security Interest is removed or discharged by the later of the date which is (a) six months of the date of the Trust Deed; and (b) six months from the acquisition of such asset;

- (b)
 - (i) any netting or set-off arrangements entered into by a member of the Phoenix Financing Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances of members of the Phoenix Financing Group and for the purposes of any pooling arrangements that a member of the Phoenix Financing Group has put in place with an Acceptable Bank, but only so long as (i) such arrangements do not permit credit balances of the Issuer or the Guarantors to be netted or set off against debit balances of the persons that are not members of the Phoenix Financing Group and (ii) such arrangements do not give rise to other Security Interests over the assets of the Issuer or the Guarantors in support of persons that are not members of the Phoenix Financing Group; and
 - (ii) any netting or set-off arrangement under a Hedging Agreement where the obligations of other parties thereunder are calculated by reference to net exposure thereunder (but not any netting or set-off relating to such Hedging Agreement in respect of cash collateral or any other Security Interest except as otherwise permitted under the Trust Deed or the Intercreditor Agreement);
- (c) rights of set-off, banker's liens or the like or liens arising by operation of law and in the ordinary course of trading and not as a result of any default or omission by any member of the Phoenix Financing Group;
- (d) any Security Interest or Quasi-Security Interest arising under any title transfer or retention of title arrangement entered into by any member of the Phoenix Financing Group in the normal course of its trading activities on the counterparty's standard or usual terms;
- (e) any Security Interest or Quasi Security Interest arising under or contemplated by any finance leases, hire purchase agreements, conditional sale agreements or other agreements for the acquisition of assets by any member of the Phoenix Financing Group on deferred purchase terms;
- (f) any Security Interest or Quasi Security Interest arising under or evidenced or contemplated in an Issue Document;
- (g) rights of set-off existing in the ordinary course of trading activities between any member of the Phoenix Financing Group and its suppliers or customers on standard terms and not arising as a result of any default by any member of the Phoenix Financing Group;
- (h) any Security Interest or Quasi Security Interest arising under statute or by operation of law in favour of any government, state or local authority in respect of taxes, assessments or government charges which are being contested by a member of the Phoenix Financing Group in good faith and with a reasonable prospect of success;
- (i) any Security Interest or Quasi Security Interest created with the prior written consent of the Bond Trustee or the approval of Bondholders by way of an Extraordinary Resolution of holders of the Bonds then outstanding;
- (j) in respect of any Security Interest of the Phoenix Financing Group in relation to the Existing Facilities Agreement provided that such Security Interest is discharged in full on or prior to the date of any advance of a loan under the Senior Facilities Agreement;
- (k) any Quasi Security Interest arising as a result of a Permitted Disposal; and
- (l) any Security Interest securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of all other indebtedness which has the

benefit of Security Interest given by any member of the Phoenix Financing Group other than any permitted under paragraphs (a) to (k) above) does not exceed £2,500,000.

“**Phoenix Financing Group**” means the Holdco Guarantor, PNG and the Issuer.

“**Quasi Security Interest**” means an interest by which any member of the Phoenix Financing Group:

- (a) sells, transfers or otherwise disposes of any of its assets on terms whereby they are or may be leased to or re-acquired by it or another member of the Group;
- (b) sells, transfers or otherwise disposes of any of its receivables on recourse terms;
- (c) enters into any arrangement under which money or the benefit of a bank or other account may be applied, set off or made subject to a combination of accounts; or
- (d) enters into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Indebtedness or of financing the acquisition of an asset, other than any such interest created which is Permitted Security or as a result of a Permitted Transaction.

“**Security Interest**” means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

“**Senior Facilities Agreement**” means the £80 million facility agreement entered into by PNG as borrower on or about 3 November 2009.

“**Subsidiary**” means a “subsidiary undertaking”, as defined in section 1162 of the Companies Act 2006.

4 Interest

The Bonds bear interest from and including 3 November 2009 at the rate of 5.50 per cent. per annum, payable semi-annually in arrear on 10 January and 10 July in each year (each an “**Interest Payment Date**”), except that the first payment of interest, to be made on 10 January 2010, will be in respect of the period from and including 3 November 2009 to but excluding 10 January 2010, subject as provided in Condition 6 (*Payments*) and will amount to £10.16 per Calculation Amount (as defined below). Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (b) the day seven days after the Bond Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is a failure to make the subsequent payment to the relevant holders under these Conditions).

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

In these Conditions, the period beginning on and including 3 November 2009 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Bond shall be calculated per £1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of 5.50 per cent., the Calculation

Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest penny (half a penny being rounded upwards).

5 Redemption and Purchase

(a) **Final Redemption:** Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 10 July 2017. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 5.

(b) **Regulatory Put:**

If at any time:

- (i) there occurs a Restructuring Event (on which occurrence, PNG shall notify the Bond Trustee as soon as practicable thereafter);
- (ii) a Negative Certification is made in respect of such Restructuring Event; and,
- (iii) within the Restructuring Period either:
 - (A) a Rating Downgrade in respect of the Restructuring Event occurs; or
 - (B) a Negative Rating Event in respect of the Restructuring Event occurs,

a “**Regulatory Put Event**” shall be deemed to have occurred.

Promptly upon the Issuer or the Guarantors being aware of a Regulatory Put Event having occurred and in any event within 14 days thereof, (A) either Guarantor or the Issuer shall, and (B) at any time upon becoming so aware the Bond Trustee may, and if so requested in writing by holders of at least 25 per cent. in aggregate principal amount of the Bonds or if directed by Extraordinary Resolution shall (subject to the Bond Trustee being indemnified and/or secured (including by way of prefunding) to its satisfaction, give notice to the Bondholders of the occurrence of such Regulatory Put Event (such notice, a “**Regulatory Put Event Notice**”), any such notice to be delivered in accordance with the provisions of Condition 15 (*Notices*). At any time from receipt of such Regulatory Put Event Notice to the date falling 45 days thereafter (such period, the “**Regulatory Put Exercise Period**”) upon the Issuer receiving at least 5 Business Days’ notice from any Bondholder (any such notice, a “**Put Event Notice**”), the Bonds of such Bondholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of such Put Event Notice (such date, the “**Regulatory Put Event Date**”), redeem each Bond the subject of such Put Event Notice at its principal amount together with interest accrued to (but excluding) the Regulatory Put Event Date.

Pursuant to the above provisions, any Bondholder having the right to require early redemption of his Bonds pursuant to this Condition 5(b), to exercise the right to require redemption of his Bonds the holder of this Bond must, if this Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Regulatory Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “**Regulatory Put Exercise Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 5(b) accompanied by this Bond or evidence satisfactory to the Paying Agent concerned that this Bond will, following delivery of the Regulatory Put Exercise Notice, be held to its order or under its control. If this Bond is represented by a Global Bond or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of the Bonds the holder of this Bond must, within the Regulatory Put Exercise Period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg, as the case may be, or any common service provider for them to the Principal Paying Agent

by electronic means) in a form acceptable to Euroclear or, as the case may be, Clearstream, Luxembourg from time to time and, if this Bond is represented by a Global Bond, at the same time present or procure the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly.

Any Regulatory Put Exercise Notice or other notice given by a holder of any Bond in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 5(b) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Bond Trustee has declared the Bonds to be due and repayable pursuant to Condition 8 (*Events of Default*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 5(b).

In this Condition 5(b):

“**Authority**” means the Northern Ireland Authority for Utility Regulation (“**NIAUR**”) or the Department of Enterprise, Trade and Investment (“**DETI**”), as applicable, or a successor to either of them.

“**Energy Order**” means The Energy (Northern Ireland) Order 2003, as amended and/or supplemented from time to time.

“**Fitch**” means Fitch Ratings Ltd or any of its subsidiaries and their successors.

“**Gas Order**” means The Gas (Northern Ireland) Order 1996, as amended and/or supplemented from time to time including, without limitation, by way of the Energy Order.

“**Independent Financial Adviser**” means a financial adviser appointed by the Issuer and approved by the Bond Trustee or, if the Issuer has not appointed such an adviser within 10 days of a Restructuring Event and the Bond Trustee is indemnified and/or secured and/or prefunded to its satisfaction, appointed by the Bond Trustee at the expense of the Issuer following consultation if practicable with the Issuer.

“**Licence**” means the licence granted to PNG by the Department of Enterprise, Trade and Investment for the conveyance of gas in the Licensed Area (as defined in Schedule 1 of PNG’s Licence) as modified from time to time.

“**Material Adverse Effect**” means a material adverse effect on:

- (a) the business or financial condition of the Group taken as a whole;
- (b) the ability of the Issuer or the Guarantors (taken as a whole) to perform the payment obligations under any of the Issue Documents;
- (c) the ability of each of the Issuer and the Guarantors to perform its material obligations (other than payment obligations) under any of the Issue Documents; or
- (d) subject to the Legal Reservations, the validity or enforceability of the obligations of any of the Issuer and the Guarantors under the Issue Documents against any member of the Phoenix Financing Group.

In relation to ascertaining or determining whether an event or occurrence has a Material Adverse Effect, where the Bond Trustee is instructed to take any action pursuant to (i) the instructions of Bondholders holding at least one quarter in principal amount of the Bonds then outstanding or (ii) an Extraordinary Resolution of holders of the Bonds then outstanding, and any such action requires the determination of whether such event or occurrence has had a Material Adverse Effect, the Bond Trustee shall have no duty to enquire or satisfy itself as to the existence of such event or occurrence having a Material Adverse Effect and shall be entitled to rely conclusively upon such instructions by, or Extraordinary Resolution of, the Bondholders regarding the same.

“**Moody’s**” means Moody’s Investors Service Limited or any of its subsidiaries and their successors.

“**Negative Certification**” means the certification in writing by an Independent Financial Adviser within 30 days of the occurrence of the Restructuring Event to the Bond Trustee that the Restructuring Event is, in its opinion, materially prejudicial to the interests of Bondholders.

“**Negative Rating Event**” means any failure, as a result of a Restructuring Event, to obtain a Rating on the Bonds of at least BBB- or Baa3 (in respect of Fitch and Moody’s, respectively, or their respective equivalents for the time being).

“**Rating**” means the rating for the time being assigned by any Rating Agency to the Bonds.

“**Rating Agencies**” means Fitch or Moody’s, or any permitted substitute selected by the Issuer from time to time with the prior written approval of the Bond Trustee (each, a “**Rating Agency**”).

“**Rating Downgrade**” shall be deemed to have occurred in respect of a Restructuring Event if, within the Restructuring Period, the Rating assigned to the Bonds by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or at its own volition) immediately prior to the announcement of such Restructuring Event is withdrawn or reduced from an investment grade rating of BBB- and Baa3 (in respect of Fitch and Moody’s, respectively, or their respective equivalents for the time being) or better to a noninvestment grade rating of BB+ and Ba1 (in respect of Fitch and Moody’s, respectively, or their respective equivalents for the time being) or worse or, if the Rating assigned to the Bonds by any Rating Agency immediately prior to such Restructuring Event is below investment grade (as described above), the rating is lowered by at least one full rating category (from BB+ to BB and Ba1 to Ba2 or such similar lowering).

“**Restructuring Event**” means:

- (a)
 - (i) the Authority giving PNG or any Subsidiary (as defined in the Trust Deed) of PNG written notice of any revocation of its Licence; or
 - (ii) PNG agreeing in writing with the Authority to any revocation or surrender of its Licence; or
 - (iii) any legislation (whether primary or subordinate) is enacted terminating or revoking the Licence of PNG,

except in any such case in circumstances where a licence or licences on substantially no less favourable terms (in the opinion of PNG and as certified in good faith by two directors of PNG to the Bond Trustee (upon which the Bond Trustee may rely absolutely without liability to any person)) is or are granted to PNG or a wholly-owned Subsidiary of PNG and, in the case of such Subsidiary, at the time of such grant it either:

- (I) executes in favour of the Bond Trustee (x) an unconditional and irrevocable guarantee in respect of the Bonds and (y) a trust deed in which it agrees to be bound by the terms of the Issue Documents and agrees to be subject to the same obligations as are expressed under such Issue Documents as are imposed thereunder upon PNG in such form and content as the Bond Trustee may approve (and provided further that each of the Issuer, PNG and any such Subsidiary agree to make any other consequential amendments to the Issue Documents as the Bond Trustee may require) (and with effect from the date of such grant, the term “PNG” as used in these Conditions shall be construed to refer to PNG and to any such Subsidiary as may be so approved); or
 - (II) becomes the primary obligor under the Bonds pursuant to Condition 11(c) (*Substitution*); or
- (b) any material rights, benefits or obligations of PNG under the Licence or any material terms of the Licence are modified (whether or not with the consent of PNG or the Authority and whether pursuant to the Gas Order or otherwise but excluding modifications arising out of the periodic review by the Authority of PNG’s maximum allowable revenue) or any other material consents, licences or authorisations are revoked unless two directors of PNG shall have certified in good

faith to the Bond Trustee that any such modification or revocation would not have a Material Adverse Effect; or

- (c) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying in any material way the duties or powers of the Authority (including without limitation any such legislation removing, reducing or qualifying such duties or powers under or pursuant to the Gas Order or the Energy Order or any equivalent legislation which amends, supplements or supersedes any such relevant provisions of the Gas Order or the Energy Order (as the case may be)) unless two directors of PNG shall have certified in good faith to the Bond Trustee that any such removal, reduction or qualification of any such duties or powers would not have a Material Adverse Effect.

“**Restructuring Period**” means the period of 60 days commencing on the date of occurrence of a Restructuring Event (or such longer period until the conclusion of any review by the Rating Agencies).

- (c) **Redemption for Taxation Reasons:** The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Bond Trustee immediately prior to the giving of such notice that it (or, if either Guarantee were called, the relevant Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the U.K. or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Closing Date, and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Bonds (or the relevant Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(c), the Issuer shall deliver to the Bond Trustee a certificate signed by two directors of the Issuer (or the relevant Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it/them and the Bond Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.
- (d) **Redemption at the Option of the Issuer:** The Issuer may at its option, having given not less than 30 nor more than 90 days’ notice to the Bondholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), redeem the Bonds in whole or in part (but, if in part, in a principal amount equal to or greater than £5,000,000) at the price which shall be the higher of the following:
 - (i) their principal amount; and
 - (ii) their principal amount multiplied by that price (the “**Redemption Price**”), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the 4 per cent. Treasury Stock 2016 or, if such stock is no longer in issue, of such other U.K. Government Stock as the Issuer, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the “**Reference Stock**”) on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day plus 0.20 per cent., as determined by Barclays Bank PLC (or such other person(s) as the Bond

Trustee may approve in writing). Any reference in these Conditions to principal shall, where applicable, be deemed to be a reference to the Redemption Price. The “**Gross Redemption Yield**” on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper “*Formulae for calculating Gilt Prices from Yields*” page 4, Section One: Price/Yield Formulae “Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998) (as supplemented, amended or replaced from time to time),

together with interest (if any) accrued to but excluding the date of redemption.

Notices of redemption will specify the date fixed for redemption, the applicable redemption price and, in the case of partial redemption, the serial numbers of the Bonds called for redemption, the serial numbers of any Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after redemption. No such notice of redemption may be given by the Issuer unless it shall have delivered to the Bond Trustee a certificate signed by two directors of the Issuer (upon which the Bond Trustee may rely absolutely and without liability to any person) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption delivered in accordance with this Condition 5(d), the Issuer shall be bound to redeem the Bonds called for redemption in accordance with this Condition 5(d).

- (e) **Notice of Redemption and Drawings:** All Bonds in respect of which any notice of redemption is given under this Condition 5(e) shall be redeemed on the date specified in such notice in accordance with this Condition 5(e). In the case of a partial redemption the notice shall also contain the serial numbers of the Bonds to be redeemed, which shall have been drawn in such place as the Bond Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.
- (f) **Purchase:** Each of the Issuer and the Guarantors and their respective Subsidiaries (as defined in the Trust Deed) may at any time purchase Bonds in the open market or otherwise at any price (provided that, if they should be cancelled under Condition 5(g) (*Cancellation*) below, they are purchased together with all unmatured Coupons relating to them). The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor(s) or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 11(a) (*Meetings of Bondholders*).
- (g) **Cancellation:** All Bonds so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or resold.

6 Payments

- (a) **Method of Payment:** Payments of principal, premium and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Bonds or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent. Payments of interest due in respect of any Bond other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Bond.
- (b) **Payments Subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

- (c) **Surrender of Unmatured Coupons:** Each Bond should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7 (*Taxation*)) for the relevant payment of principal.
- (d) **Payments on Business Days:** A Bond or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a U.S. dollar account, in New York City). No further interest or other payment will be made as a consequence of the day on which the relevant Bond or Coupon may be presented for payment under this Condition 6(d) falling after the due date. In this Condition 6(d) “business day” means a day on which commercial banks and foreign exchange markets are open in the relevant city.
- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantors reserve the right at any time with the approval of the Bond Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Principal Paying Agent and, (ii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Bondholders.

7 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer or the Guarantors in respect of the Bonds and the Coupons or under the Guarantees shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the U.K. or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer or, as the case may be, any of the Guarantors shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

- (a) **Other Connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the U.K. other than the mere holding of the Bond or Coupon; or
- (b) **Presentation more than 30 Days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days; or
- (c) **Payment to Individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, this Directive; or
- (d) **Payment by another Paying Agent:** by or on behalf of a Bondholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union.

“**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been by the Principal Paying Agent or the Bond Trustee on or prior to

such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders. Any reference in these Conditions to principal, premium and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

8 Events of Default

Subject to the Intercreditor Agreement, if any of the following events occurs and is continuing the Bond Trustee at its discretion may, and if so requested by holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in the case of the occurrence of any of the events described in sub-paragraph (c), (e), (f), (h) and (l) (each a “**Certification Event**”) and any event which is analogous to a Certification Event pursuant to sub-paragraph (k), the Bond Trustee has already certified in writing to the Issuer and the Guarantors that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), subject in each case to the Bond Trustee being indemnified and/or secured and/or prefunded to its satisfaction, give notice to the Issuer (copied to the Security Trustee (though failure to do so will not invalidate the notice)) that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

- (a) **Non-Payment:** the Issuer fails to pay the principal of or any interest on any of the Bonds when due and such failure continues for a period of three days;
- (b) **Financial Covenant:** the Net Debt/TRV Ratio, as calculated in accordance with the Trust Deed, is or is estimated to be greater than 95 per cent.;
- (c) **Breach of Other Obligations:** the Issuer or any of the Guarantors does not perform or comply with any one or more of its other obligations in the Issue Documents which default is incapable of remedy or, if in the opinion of the Bond Trustee capable of remedy, is not in the opinion of the Bond Trustee remedied within 60 days after notice of such default shall have been given to the Issuer or the Guarantors by the Bond Trustee;
- (d) **Cross-Acceleration:** (i) any other present or future Indebtedness of the Issuer or any of the Guarantors for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual event of default (howsoever described), or (ii) any such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned above in this Condition 8(d) have occurred equals or exceeds £5,000,000 or its equivalent in any other currency (as reasonably determined by the Bond Trustee);
- (e) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of the Guarantors and is not discharged or stayed within 14 days;
- (f) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of the Guarantors becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person);
- (g) **Insolvency:** the Issuer or any of the Guarantors is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, any of the Guarantors;

- (h) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any of the Guarantors, or the Issuer or any of the Guarantors ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Bond Trustee or by an Extraordinary Resolution of the Bondholders;
- (i) **Ownership:** except as a result of a Permitted Reorganisation, (i) the Issuer ceases to be directly wholly-owned and controlled by PNG or (ii) PNG ceases to be directly wholly owned and controlled by the Holdco Guarantor;
- (j) **Illegality:** it is or will become unlawful for the Issuer or any of the Guarantors to perform or comply with any one or more of (in the opinion of the Bond Trustee) their material obligations under any of the Issue Documents;
- (k) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing Conditions 8(a) to (j); or
- (l) **Issue Documents:** any Issue Document is not, in whole or in (in the opinion of the Bond Trustee) any material part, (or is claimed by any of the Guarantors not to be) in full force and effect,

provided always that if a misrepresentation, breach or other default (a “**Relevant Default**”) occurs pursuant to the terms hereof as a result of any act or omission or state of affairs in existence which, in each case, relates only to a member of the Group other than PNG or the Issuer (the “**Relevant Member**”), such Relevant Default shall be deemed not to have occurred in relation to PNG and the Issuer and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement action shall arise or may be taken by the Bond Trustee against PNG or the Issuer as a consequence thereof (this provision shall not operate to limit any rights or remedies against the Relevant Member) and **provided further that** if the Bond Trustee is instructed or directed to declare the Bonds immediately due and payable in accordance with this Condition 8, the Bond Trustee shall have no duty to enquire or satisfy itself as to the existence of an Event of Default and shall be entitled to rely exclusively upon such instruction or direction.

In this Condition 8:

“**Group**” means the Holdco Guarantor and its Subsidiaries from time to time.

9 Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 (*Payments*) within a period of 10 years in the case of principal and 5 years in the case of interest from the appropriate Relevant Date.

10 Replacement of Bonds and Coupons

If any Bond or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantors may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

11 Meetings of Bondholders, Modification, Waiver and Substitution

- (a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an

Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds or the Coupons, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, (v) to modify or cancel either of the Guarantees or, (vi) to amend proviso 2.9 of Schedule 3 (*Provisions for Meetings of Bondholders*) of the Trust Deed, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) **Modification and Waiver:** The Bond Trustee may agree, without the consent of the Bondholders or Couponholders, to (i) any modification of any of the provisions of the Issue Documents which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Issue Documents which is in the opinion of the Bond Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and the Couponholders and, if the Bond Trustee so requires, such modification shall be notified to the Bondholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Bond Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Bond Trustee may require (including that the substitution shall comply with the definition of “Permitted Reorganisation”), but without the consent of the Bondholders or the Couponholders, to the substitution of an entity in place of the Original Holdco Guarantor, or of any previous substituted company, as guarantor under the Trust Deed and the Bonds. In the case of such a substitution the Bond Trustee may agree, without the consent of the Bondholders or Couponholders, to a change of the law governing the Bonds, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Bond Trustee be materially prejudicial to the interests of the Bondholders.
- (d) **Entitlement of the Bond Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Bond Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or the Guarantor(s) any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

12 Enforcement

Subject to the Intercreditor Agreement, at any time after the Bonds become due and payable, the Bond Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the

Guarantors as it may think fit to enforce the terms of the Trust Deed, the Bonds and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least one-quarter in principal amount of the Bonds outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder or Couponholder may proceed directly against the Issuer or the Guarantors unless the Bond Trustee, having become bound so to proceed and permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

13 Bond Trustee

The Trust Deed contains provisions for the indemnification of the Bond Trustee and for its relief from responsibility. The Bond Trustee is entitled to enter into business transactions with the Issuer, any of the Guarantors and any entity related to the Issuer or any of the Guarantors without accounting for any profit.

The Bond Trustee may rely without liability to Bondholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Bond Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Bond Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Bond Trustee and the Bondholders.

The Bond Trustee is not obliged or required to take any action under the Trust Deed or the other Issue Documents which may involve it in incurring any personal liability or expense unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Bond Trustee is exempted from liability with respect to any loss or theft or reduction in value of the Charged Assets, from any obligation to insure or to procure the insuring of the Charged Assets and from any claim arising from the fact that the Charged Assets or any of the Charged Assets will be held in safe custody. The Bond Trustee is not responsible for monitoring or supervising the performance by any other person of its obligations to the Issuer or any Guarantor or the performance by the Security Trustee of its obligations and duties to the Secured Creditors (as defined in the Intercreditor Agreement) and may assume these are being performed unless it shall have actual knowledge to the contrary.

The Bond Trustee shall not be responsible for monitoring or ascertaining whether a Major Event of Default or any acceleration of the liabilities of PNG under the Senior Facilities Agreement has occurred or exists or if the security created pursuant to the Security Agreement has become enforceable and, unless and until it receives express notice from the Issuer or a Guarantor, it shall be entitled to assume that no such event has occurred or exists.

The Bond Trustee shall not be liable to any Bondholder or other person for any failure to make or to cause to be made on its behalf the searches, investigations and enquiries which would normally be made by a prudent chargee, mortgagee or assignee in relation to the Charged Assets.

The Issuer or either Guarantor shall notify the Bond Trustee and the Bondholders prior to or promptly upon the occurrence of any Major Event of Default, if any acceleration of the liabilities of PNG under the Senior Facilities Agreement has occurred or exists or if the security created pursuant to the Security Agreement has become enforceable.

In this Condition 13: “**Charged Assets**” means those assets which are from time to time the subject of the provisions of the Security Agreement; and

“**Major Event of Default**” has the meaning given to it in the Intercreditor Agreement.

14 Further Issues

The Issuer may from time to time without the consent of the Bondholders or Couponholders create and issue further securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Bonds. Any further securities forming a single series with the outstanding securities of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Bond Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of securities of other series where the Bond Trustee so decides.

15 Notices

Notices to Bondholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Bond Trustee such publication shall not be practicable, in an English-language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

- (a) **Governing Law:** The Trust Deed, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Coupons or the Guarantees and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Coupons or the Guarantees (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantors have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

1 Nominal Amount and Exchange

The nominal amount of the Bonds shall be the aggregate amount from time to time entered in the records of Euroclear Bank S.A/N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) or any alternative clearing system approved by the Bond Trustee (the “**Alternative Clearing System**”) (each a “**relevant Clearing System**”). The records of such relevant Clearing System shall be conclusive evidence of the nominal amount of Bonds represented by the Temporary Global Bond and the Global Bond and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time.

The Temporary Global Bond is exchangeable in whole or in part for interests recorded in the records of the relevant Clearing Systems in the Global Bond on or after a date which is expected to be 13 December 2009, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for Bonds in definitive form (“**Definitive Bonds**”) described below if the Global Bond is held on behalf of a relevant Clearing System and such relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Principal Paying Agent of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying Agent. In exchange for the Global Bond the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 (*Form of Definitive Bond*) to the Trust Deed. On exchange in full of the Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Bonds.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant Clearing System is located.

2 Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Global Bond will be made to its holder. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant Clearing System and, in the case of payments of principal, the nominal amount of the Bonds will be reduced accordingly. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing System shall not affect such discharge. Condition 6(e)(ii) and Condition 7(d) will apply to the Definitive Bonds only.

3 Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a relevant Clearing System, notices to Bondholders may be given by delivery of the relevant notice to that relevant

Clearing System for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

4 Prescription

Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 (*Taxation*)).

5 Meetings

The holder of the Global Bond shall (unless the Global Bond represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond for which this Global Bond may be exchanged.

6 Purchase and Cancellation

On cancellation of any Bond required by the Conditions to be cancelled following its purchase, the Issuer shall procure that details of such cancellation shall be entered *pro rata* in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Bonds recorded in the records of the relevant Clearing Systems and represented by this Global Bond shall be reduced by the aggregate nominal amount of the Bonds so cancelled.

7 Bond Trustee's Powers

In considering the interests of Bondholders while the Global Bond is held on behalf of a relevant Clearing System the Bond Trustee may have regard to any information provided to it by such relevant Clearing System or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond and may consider such interests as if such accountholders were the holder of the Global Bond.

USE OF PROCEEDS

The proceeds of the issue of the Bonds are expected to amount to £271,213,250 after deduction of fees and expenses incurred in connection with the issue of the Bonds. The proceeds of the issue of the Bonds will be used by the Issuer to make advances to PNG pursuant to the Issuer/PNG Loan Agreement to enable PNG to refinance its existing intra-group and external indebtedness and associated costs and expenses.

The fees and expenses in connection with the admission to trading are expected to amount to £7,500.

TAX CONSIDERATIONS

U.K. Taxation

The following summary consists of comments which relate only to U.K. withholding tax and do not deal with any other aspect of the U.K. taxation treatment that may be applicable to Bondholders (including, for instance, income tax, capital gains tax and corporation tax). The comments are of a general nature and, are based on current law and HM Revenue & Customs (“HMRC”) practice, which may be subject to change, sometimes with retrospective effect and relate only to the position of persons who are the absolute beneficial owners of the Bonds. Particular rules, not discussed below, may apply to certain classes of taxpayers holding Bonds, such as dealing in securities or trusts. The summary does not constitute tax or legal advice and the comments below are of a general nature only.

Prospective investors in the Bonds who are in any doubt whatsoever as to the tax implications of the purchase, holding, redemption or sale of the Bonds and the receipt of interest thereon (under the laws of the U.K. and/or any other jurisdiction that may be relevant to such holders) should consult their professional advisers.

U.K. Withholding Tax on U.K. Source Interest

While the Bonds continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of U.K. income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange.

In cases falling outside the exemption described above, interest on the Bonds will generally, unless another exemption is available, fall to be paid under deduction of U.K. income tax at the basic rate (currently 20 per cent. subject to relief pursuant to any double taxation treaties). If any amount must be withheld by the Issuer, on account of U.K. tax from payments of interest on the Bonds then (subject to the provisions of Condition 7 (*Taxation*)) the Issuer, will pay such additional amounts as will result in the Bondholders receiving an amount equal to that which they would have received had no such withholding been required.

Bondholders should be aware that they may be liable to taxation under the laws of other tax jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the U.K. and should consult their professional advisers.

Payments by PNG and the Holdco Guarantor

If PNG or the Holdco Guarantor makes any payment under the respective Guarantee in respect of interest on the Bonds (or any other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) such payment may be subject to U.K. withholding tax at a basic rate, subject to any applicable relief, whether or not the Bonds are listed on a “recognised stock exchange” within the meaning of Section 1005 of the Income Tax Act 2007. If any amount must be withheld by PNG or the Holdco Guarantor on account of U.K. tax from payments in respect of interest on the Bonds then (subject to the provisions of Condition 7 (*Taxation*)) PNG or the Holdco Guarantor (as the case may be) will pay such additional amounts as will result in the Bondholders receiving an amount equal to that which they would have received had no such withholding been required.

Provision of Information

Persons in the U.K. (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of the Bonds which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is individual may be required to provide certain information to HMRC regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. This provision will apply irrespective of whether (i) the interest has been paid subject to withholding tax or deduction for or account of U.K. income tax; and (ii) the Bondholder is resident in the U.K. for U.K. taxation purposes. However, in relation to amounts payable on redemption of such

Bonds HMRC published practice indicates HMRC will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2010.

For the above purposes, “interest” should be taken, for practical purposes, as including payments made by PNG or the Holdco Guarantor in respect of interest on the Bonds.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

EU Directive on the Taxation of Savings Income

The EU has adopted an EC Council Directive 2003/48/EC (the “**Directive**”) regarding the taxation of savings income. The Directive requires member states to provide to the tax authorities of another member state details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another member state, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the Directive.

On 13 November 2008, the European Commission published a proposal for amendments to the Directive, which included a number of changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved a version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should contact their professional advisers.

SUBSCRIPTION AND SALE

Barclays Bank PLC and The Royal Bank of Scotland plc as joint lead managers and book runners (together, the “**Joint Lead Managers and Joint Bookrunners**”) have, in a subscription agreement dated 28 October 2009 (the “**Subscription Agreement**”) and made between the Issuer, the Guarantors and the Joint Lead Managers and Joint Bookrunners upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds at their issue price of 99.373 per cent. of their principal amount less a combined arrangement and underwriting commission. The Issuer and the Guarantors have jointly and severally also agreed to reimburse the Joint Lead Managers and Joint Bookrunners for certain of their expenses incurred in connection with the management of the issue of the Bonds. The Subscription Agreement is subject to a number of conditions and may be terminated by the Joint Lead Managers and Joint Bookrunners in certain circumstances prior to the closing of the issue of the Bonds.

General

Neither the Issuer nor the Guarantors nor any of the Joint Lead Managers and Joint Bookrunners has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers and Joint Bookrunners or the Issuer or the Guarantors that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers and Joint Bookrunners has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantors or any other Joint Lead Manager and Joint Bookrunner in any such jurisdiction as a result of any of the foregoing actions.

United States

The Bonds have not been and will not be registered under the Securities Act and the Bonds are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. Each of the Joint Lead Managers and Joint Bookrunners has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Bonds within the United States or to U.S. persons, except as permitted by the Subscription Agreement.

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each of the Joint Lead Managers and Joint Bookrunners has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Joint Lead Managers and Joint Bookrunners has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the U.K..

GENERAL INFORMATION

1 Listing

The listing of the Bonds on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the Official List and admission of the Bonds to trading on the Market will be granted on or before 3 November 2009, subject only to the issue of a temporary or permanent Global Bond. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

2 Authorisation

- 2.1 The creation and issue of the Bonds has been duly authorised by resolutions of the Board of Directors of the Issuer passed at a meeting of the Board held on 8 October 2009. The Issuer has obtained or will obtain all necessary consents, approvals and authorisations in connection with the issue of the Bonds.
- 2.2 The giving of the PNG Guarantee has been duly authorised by resolutions of the Board of Directors of PNG passed at a meeting of the Board held on 8 October 2009. PNG has obtained or will obtain all necessary consents, approvals and authorisations in connection with the giving of the PNG Guarantee.
- 2.3 The giving of the Holdco Guarantee and the granting of the Security Agreement has been duly authorised by resolutions of the Board of Directors of PDHL passed at a meeting of the Board held on 8 October 2009. PDHL has obtained or will obtain all necessary consents, approvals and authorisations in connection with the giving of the Holdco Guarantee and the granting of the Security Agreement.

3 Significant or Material Change

- 3.1 There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer since its date of incorporation.
- 3.2 There has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of PNG or the Holdco Guarantor since 31 December 2008.

4 Litigation

- 4.1 The Issuer is not, or has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on its financial position or profitability.
- 4.2 None of PNG or the Holdco Guarantor is, or has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which PNG and/or the Holdco Guarantor, is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on its financial position or profitability.

5 Material contracts

No contract (other than contracts entered into in the ordinary course of business) has been entered into which could result in any member of the Phoenix Financing Group being under an obligation or entitlement that is material to any of the Issuer's or the Guarantors' ability to meet its obligations to holders of the Bonds.

6 US laws

Each Bond and Coupon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

7 Clearing systems

The Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 046285468. The International Securities Identification Number (ISIN) for the Bonds is XS0462854687. The Bonds are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria."

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

8 Third parties' information

Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced, and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

9 Documents available for inspection

For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the office of the Issuer and the Principal Paying Agent:

Documents Available

- (i) the Memorandum and Articles of Association of the Issuer, PNG and PDHL;
- (ii) this Prospectus (including Appendix A and Appendix B);
- (iii) the Paying Agency Agreement;
- (iv) the Trust Deed (including the Guarantees);
- (v) the Security Agreement;
- (vi) the Intercreditor Agreement;
- (vii) the Issuer/PNG Loan Agreement;
- (viii) the Kellen Deed of Covenant;
- (ix) the Carmel Security Document; and
- (x) the Kellen Capital Security Document.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricenews/marketnews.

10 Auditors

The auditors of PDHL, PNG and the Issuer are KPMG Chartered Accountants, Stokes House 17-25 College Square East, Belfast BT1 6DH, which is a member firm of the Institute of Chartered Accountants in Ireland (the "Auditors"). The statutory audited accounts of PDHL and PNG have been prepared, in accordance with generally accepted accounting standards in the U.K., in each case for the years ended 31 December 2008 and 31 December 2007, and in each case the Auditors have given unmodified reports which contained no statement under Article 245(2) and (3) of the Companies (Northern Ireland) Order 1986.

These audited accounts have been delivered to the Registrar of Companies in Northern Ireland and the Auditors have consented to the inclusion of such reports in this Prospectus.

APPENDIX A
INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS OF PNG

PART I

**AUDITED FINANCIAL STATEMENTS OF PHOENIX NATURAL GAS LIMITED
(FORMERLY PHOENIX DISTRIBUTION (NORTHERN IRELAND) LIMITED) AND
INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDING 31 DECEMBER 2008**

Directors and other information

Directors	P V Dixon W F M McKinstry A J Pollock (appointed 21 February 2008) I R Bell (appointed 21 February 2008)
Secretary	W F M McKinstry
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	Northern Bank Donegall Square West Belfast BT1 6JS Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB Citigroup Global Markets Limited 33 Canada Square Canary Wharf London E14 5LB
Solicitors	McKinty & Wright 5-7 Upper Queen Street Belfast BT1 6FS
Registered office	197 Airport Road West Belfast BT3 9ED
Company registration number	NI 32809

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The company commenced trading on 1st January 2008 with its principal activity being the distribution of natural gas within the company's licence area. The company ceased being dormant on 31st December 2007.

The company is the owner and operator of the licence for the distribution network in the Greater Belfast Area and Larne. Phoenix Natural Gas is responsible for the development of the pipeline network and also for providing a 24/7 operational and transportation service platform to gas suppliers under the rules of the company's Network Code.

The network currently extends to 2,940 kilometres of intermediate, medium and low pressure mains, which distribute natural gas throughout the licence area, representing around 50% of the population of Northern Ireland.

Phoenix Natural Gas manages the development of the both the physical network and market in Greater Belfast; already some 123,000 customers have been connected to natural gas in the 12 years it has been available here.

The business is regulated under licence by the Northern Ireland Authority for Utility Regulation (NIAUR).

Review of business and future developments

A previous company under the name of Phoenix Natural Gas commenced trading in 1996 with a combined licence for transmission, distribution and supply of natural gas in Greater Belfast and Larne.

The supply part of this business was transferred into a new company called Phoenix Supply Limited in line with EU requirements on 1 January 2007.

The distribution business was then transferred to Phoenix Distribution (Northern Ireland) Limited on 1st January 2008 in order to facilitate the sale of the business remaining, the transmission business to a mutually owned special purpose vehicle Northern Ireland Energy Holdings (NIEH) on 31st March 2008.

Whilst continuing to trade as Phoenix Natural Gas throughout this process, the distribution business was formally renamed Phoenix Natural Gas Limited on 24 September 2008, following completion of the change of the name of the transmission business.

Growth and Investment

Distribution income of £34.0m in 2008 was consistent with the application of published conveyance charges to all gas distribution system users. These were derived from their use of the network based on the amount of gas conveyed in the year. Charges are set annually in advance of the year (inclusive of an estimate of any surplus/deficit from the previous year) in order to recover the income determined for each year within NIAUR's Price Control for the 5-year period, currently 2007 to 2011. Actual income generated was higher than the required level for 2008, due to increases in actual throughput compared to forecast. As a result an over recovery of income of £0.6m has been accumulated at the end of 2008 (compared to £0.3m deficit at end of 2007). This will be carried forward and returned to all system users through conveyance charges in subsequent years.

114 million therms (mt) have been transported through the network IN 2008. Volumes are estimated to have benefitted by 2.9 mt due to temperatures being 0.3 degrees colder than the average for the past 5-years.

Otherwise underlying growth in throughput is driven by an increasing number of customers being connected to the network and load growth within existing customer connections.

The company invested a further £10.7m in capital expenditure during 2008, constructing 60km of new network and connecting 7,900 new customers. By year-end, Phoenix Natural Gas had 2,940km of network in operation, making gas available to 266,252 premises in its licence area, with a total of 122,555 (46%) already connected. As the leading player in developing the natural gas industry in Northern Ireland, Phoenix continued to enhance the services and functions it offers consumers before, during and after the connection process, and in partnership with installers and manufacturers, delivered excellent value for money services.

Operations and Regulation

The company met all published Standards of Customer Service, as measured independently by the Consumer Council for Northern Ireland (CCNI) and the Northern Ireland Authority for Utility Regulation (NIAUR). In the key areas of connecting new customers and attending Public Reported Escapes, targets were exceeded.

During 2008, its distribution network continued to operate without major incident. Phoenix was recognised for our contribution to the environment by being awarded 1st quintile position in the prestigious Arena Network Annual Environmental Awards. Its ongoing operational procedures in the areas of environmental performance and Occupational Health and Safety were recognised by successfully retaining accreditations of ISO14001 and 18001.

The company built further upon the solid regulatory foundation established in 2006 through the 40-year licence agreement with NIAUR and additional progress has been achieved in finalising the terms around the principles within the third regulatory price control determined by NIAUR at the end of 2007 for the period 2007 to 2011.

Due to inherent difficulties in agreeing forecast levels of volumes for the existing customer base, which now make up a significant part of annual throughput, a new mechanism has been agreed with NIAUR for incentivising growth in new connections, based directly on annual targets within the owner occupied and small commercial market sectors. A licence change will be necessary to remove the volume incentive and replace with a connection incentive mechanism based on the difference between incomes associated with actual and forecast connections. In addition, an adjustment to methodology to determine allowable market development costs per year has been introduced as a revision to the price control, linked to the number of owner occupied connections achieved. Licence modifications to incorporate these changes are planned to be completed during 2009.

Market Overview and Outlook

Over the last 13-years Phoenix has built a strong relationship with the Northern Ireland Housing Executive, the body responsible for all Northern Ireland's public housing. By continuing to develop this relationship in a proactive manner, we will ensure that the maximum number of NIHE tenants will benefit from natural gas in 2009.

Within the new build housing market 2008 saw a continuing slowdown of activity. However, as Phoenix has been very successful at capturing all new developments within its licence area to date, and with its extensive distribution network throughout Greater Belfast, we are well positioned to provide natural gas to all new housing projects in our area during 2009 and to benefit from any upturn when it arises.

Although the company has now met its obligations to extend the gas network into existing owner occupied areas, further investment is planned throughout the prevailing price control period (2007 to 2011) to extend the gas network in established private residential areas where there is a strong propensity for customers to convert.

2009 will also see a further planned investment to reinforce the distribution network and provide security of supply for Phoenix's customers in light of future expected increases in demand at critical points in the system.

4km of 7bar distribution network will be constructed to enable gas flowing through the South North transmission pipeline from Dublin to be transported from the southwest of Phoenix's licence area into the main Belfast conurbation. This will provide a complete loop from Scotland to Belfast and from Scotland via Dublin to Belfast.

Phoenix will continue to work closely with manufacturers of heating equipment and local installation companies to offer incentives and finance packages and, through additional marketing by the trade organisations, motivate potential owner-occupied customers to switch.

Through our professional relationship with the government agencies, Phoenix will maximise consumer opportunities provided by government funded schemes, such as 'Warm Homes' and 'Cosy Homes' - converting the fuel poor to a modern and efficient natural gas heating system.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of Kellen Investments Limited and are not managed separately. Accordingly the principal risks and uncertainties are discussed in the annual report and accounts of Kellen Investments Limited, which does not form part of this report.

Key Performance Indicators

The company's directors are of the opinion that analysis using turnover, gross profit, operating profit and net assets as provided in the financial statements is sufficient to understand the development, performance and position of the business.

Results and dividends

The loss for the financial year is £5,701,642 (9 months ended 31 December 2007: dormant). No dividend is recommended.

Political and charitable donations

The company made charitable donations amounting to £15,892 during the year (2007: £nil).

Directors and their interests

The directors who served during the period are shown on page 100.

Employment policies

Equal Opportunities

The company is committed to a proactive approach in promoting equality of opportunity. The company ensures that it operates fairly and equitably in its dealings with employees and prospective employees. The company is opposed to all forms of unlawful and unfair discrimination. The company ensures through all of its personnel policies, practices and procedures that employment, training and promotion opportunities within the company provide employment equality to all, irrespective of:

- Gender, marital or family status
- Religious belief or political opinion
- Disability
- Nationality, race or ethnic origin
- Sexual orientation

- Age

Disability

The company has taken active steps to implement the Disability Discrimination Act. It is Company policy to provide people with disabilities equal opportunities for employment, training and career development, having regard to aptitude and ability. Any member of staff who becomes disabled during employment is given assistance and retraining where possible.

Employee Participation

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect progress of the company and are of interest and concern to them as employees, thereby encouraging their involvement in the group's performance.

Policy and practice on payment of creditors

The company is a registered supporter of the Better Payment Practice Group's 'Better Payment Practice Code' to which it subscribes when dealing with all of its suppliers. Copies of the Better Payment Practice Group's code are available from the Department of Trade & Industry.

Trade creditors at the year end represented 29 days (2007: nil days). It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and

each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG will therefore continue in office.

By order of the board

P V Dixon
Director

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Director's Report that complies with the Companies (Northern Ireland) Order 1986.

On behalf of the board

P V Dixon
Director

Independent auditors' report to the members of Phoenix Natural Gas Limited

We have audited the financial statements of Phoenix Natural Gas Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 105.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG

Chartered Accountants

Registered Auditor

24 June 2009

Profit and loss account

	<i>Note</i>	12 mths Dec08	9 mths Dec07
		£'000	£'000
Turnover	<i>2</i>	34,395	0
Cost of sales		0	0
Gross profit		34,395	0
Net operating expenses	<i>3</i>	(20,307)	0
Operating profit	<i>4</i>	14,088	0
Interest payable and similar charges	<i>7</i>	(24,401)	0
Interest receivable and similar income	<i>8</i>	3,993	0
(Loss) on ordinary activities before taxation		(6,320)	0
Taxation	<i>9</i>	619	0
(Loss) for the financial year	<i>19</i>	(5,701)	0

A statement of movements on reserves is given in Note 19.

The notes on pages 111 to 120 form part of these financial statements.

All of the results of the company derive from continuing operations.

Statement of total recognised gains and losses

	12 mths Dec08	9 mths Dec07
	£'000	£'000
(Loss) for the financial year	(5,701)	0
Total recognised (losses) since last report	(5,701)	0

The notes on pages 111 to 120 form part of these financial statements.

Balance sheet

	<i>Note</i>	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	<i>10</i>	182,978	0
Intangible assets	<i>11</i>	160,063	0
		343,041	0
Current assets			
Stocks	<i>12</i>	692	0
Debtors: Amounts falling due within one year	<i>13</i>	72,407	33,061
Debtors: Amounts falling due after one year	<i>13</i>	0	0
Cash at bank and in hand		45,028	0
Total current assets		118,127	33,061
Creditors: Amounts falling due within one year	<i>14</i>	(411,889)	0
Net current liabilities		(293,762)	33,061
Total assets less current liabilities		49,279	33,061
Creditors: Amounts falling due after one year	<i>15</i>	(33,026)	(33,061)
Provisions for liabilities and charges	<i>16</i>	(19,354)	0
Deferred income	<i>17</i>	(2,600)	0
Net liabilities		(5,701)	0
Capital and reserves			
Called up share capital - ordinary	<i>18</i>	0	0
Profit and loss account	<i>19</i>	(5,701)	0
Equity shareholders' funds	20	(5,701)	0

On behalf of the board of directors

P V Dixon
Director

The notes on pages 111 to 120 form part of these financial statements.

Notes forming part of the financial statements

1 Accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies (Northern Ireland) Order 1986 and applicable accounting standards. The principal accounting policies are set out below.

Going concern

As highlighted in note 15 to the financial statements, the Company is financed through bank debt loan facilities made up of a term facility, a capital investment facility to support continued investment in its infrastructure assets and a revolving facility in order to meet its general working capital requirements. This debt facility is due for renewal in April 2010.

The Company's forecasts and projections, taking account of reasonable levels of possible changes in trading performance, show that the Company is capable of operating well within the level of its current facilities and also able to meet all its covenant requirements until they mature.

The Company is in discussions with bankers and rating agencies in order to acquire an investment grade rating which is also consistent with proposed new regulatory licence obligations on ring fencing.

The Company's holding company has also opened negotiations with bankers about its future borrowing needs in order to agree the terms of new facilities for all its business activities. Whilst no written commitment is in place for new debt facilities, no matter has been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

As a result of the above the directors consider it appropriate to prepare the financial statements on a going concern basis.

Revenue recognition

Turnover represents the invoiced value of goods supplied during the year excluding value added tax and intra group sales. Revenue includes an assessment of energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services.

Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under recovery.

Cash flow statement

In accordance with Financial Reporting Standard No.1, the company is exempt from the requirement to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Intangible assets

The distribution licence is eliminated by amortisation through the profit and loss account over its useful economic life. The useful economic life of the asset shown in Note 11 has been estimated by the directors at forty years. FRS 10 "Goodwill and Intangible Assets" requires goodwill to be accounted for as an asset and amortised over its useful economic life.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis, beginning with the year following expenditure, over the expected useful economic lives of the assets concerned.

The economic lives used are as follows:

	Years
Distribution mains	- 60
Distribution services	- 35
Distribution meters	- 20
Office equipment and fixtures & fittings	- 5

Debtors

Debtors are stated after provision has been made against all debts considered doubtful of collection.

Pensions

The company operates two defined contribution pension schemes and costs are accounted for on the basis of charging the pension costs over the period during which the company will benefit from the employee's services.

Turnover

Turnover represents the invoiced value of goods supplied during the year excluding value added tax. Revenue from gas sales is recognised upon delivery of the product to the customer.

Deferred taxation

Deferred tax is recognised in respect of material timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting gain or loss is dealt with in the profit and loss account.

Stocks

Stock has been valued at the lower of cost and net realisable value.

Government grants

The European Regional Development Grant relates specifically to capital expenditure on the distribution pipeline and is treated as deferred income which is then credited to the profit and loss account over the related asset's useful life.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

2 Analysis of turnover and profits

Turnover and profits relate to the company's main activity of gas distribution which is carried out in Northern Ireland.

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses.

4 Operating profit

This is stated after charging/(crediting):	12 mths Dec08	9 mths Dec07
	£'000	£'000
Depreciation – owned assets	5,200	0
Licence amortisation	4,104	0
European Regional Development Grant release	(52)	0
Operating lease rentals	966	0
Auditors' remuneration	9	0

5 Employee information

The average number of persons employed by the company (including executive directors) analysed by category during the period was as follows:

	12 mths Dec08	9 mths Dec07
	No	No
Operational	73	0
Administration	36	0
	109	0

The aggregate staff costs of these persons were as follows:

	12 mths Dec08	9 mths Dec07
	£'000	£'000
Wages and salaries	3,954	0
Social security costs	452	0
Other pension costs	301	0
	4,707	0

6 Director's remuneration

	12 mths Dec08	9 mths Dec07
	£'000	£'000
Emoluments	849	0
Company pension contributions	124	0
	973	0

Retirement benefits are accruing to three directors under a group defined contribution scheme

Details in respect of the highest paid director are as follows:

	12 mths Dec08	9 mths Dec07
	£'000	£'000
Emoluments	461	0
Company pension contributions	0	0
	461	0

7 Interest payable and similar charges

	12 mths Dec08	9 mths Dec07
	£'000	£'000
Amounts payable on bank loans and overdrafts	2,853	0
Amounts payable on inter-company loans	21,062	0
Amounts payable on loan notes	480	0
Other	6	0
	24,401	0

8 Interest receivable and similar income

	12 mths Dec08	9 mths Dec07
	£'000	£'000
Amounts receivable on bank deposits	1,460	0
Amounts receivable on inter-company loans	2,533	0
	3,993	0

9 Taxation charge

	12 mths Dec08	9 mths Dec07
	£'000	£'000
<i>Current tax</i>		
UK corporation tax for the period	(1,582)	0
Adjustments relating to earlier years	0	0
Total current tax (credit)	(1,582)	0
<i>Deferred tax (see note 16)</i>		
Origination/reversal of timing differences	963	0
Effect of reduction in tax rate	0	0
Adjustments relating to earlier years	0	0
Total deferred tax charge	963	0
Total tax (credit)	(619)	0

The current tax charge for the period is higher than (Dec 2007: the same as) than the standard rate of corporation tax in the UK. The differences are explained below:

	12 mths Dec08	9 mths Dec07
	£'000	£'000
<i>Current tax reconciliation</i>		
(Loss) on ordinary activities before tax	(6,320)	0
Current tax at 28.5% (December 2007: 30%)	(1,801)	0
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,200	0
Capital allowances for period in excess of depreciation	(993)	0
Adjustment relating to earlier years	0	0
Other timing differences	12	0
Total current tax charge	(1,582)	0

The directors are not aware of any factors that may have a significant impact on the future tax charge of the company.

10 Tangible fixed assets

	Office equipment £'000	Furniture & fixtures £'000	Distribution system £'000	Transmission pipeline £'000	Total £'000
Cost					
At 1 January 2008	0	0	0	0	0
Transfer in (see Note 11)	1,613	2,745	201,419	0	205,777
Additions	55	0	10,743	0	10,798
Disposals	0	(85)	0	0	(85)
At 31 December 2008	1,668	2,660	212,162	0	216,490
Depreciation					
At 1 January 2008	0	0	0	0	0
Transfer in (see Note 11)	1,561	1,203	25,548	0	28,312
Charge for the year	71	144	4,985	0	5,200
Disposals	0	0	0	0	0
At 31 December 2008	1,632	1,347	30,533	0	33,512
Net book value					
At 31 December 2007	0	0	0	0	0
At 31 December 2008	36	1,313	181,629	0	182,978

11 Intangible fixed assets

	Licence fee £'000	Total £'000
Cost		
At 1 January 2008	0	0
Additions	164,167	164,167
Disposals	0	0
At 31 December 2008	164,167	164,167
Amortisation		
At 1 January 2008	0	0
Charge for the year	4,104	4,104
Disposals	0	0
At 31 December 2008	4,104	4,104
Net book value		
At 31 December 2007	0	0
At 31 December 2008	160,063	160,063

11 Intangible fixed assets (Continued)

The company has attributed fair values to the assets and liabilities transferred from Belfast Gas Transmission Limited as follows:

	Book value £'000	Fair value adj £'000	Fair value £'000
Intangible fixed assets	0	164,167	164,167
Tangible fixed assets	177,465	0	177,465
Stock	649	0	649
Debtors	143,779	0	143,779
Cash	17,925	0	17,925
Debt	0	0	0
Creditors	(139,742)	0	(139,742)
Deferred Income	(2,652)	0	(2,652)
Deferred taxation	(18,391)	0	(18,391)
Net assets satisfied by inter-company	179,033	164,167	343,200

12 Stock

	2008 £'000	2007 £'000
Stock of spares and meters	692	0

13 Debtors

	2008 £'000	2007 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	340	0
Amounts owed by parent company	51,821	0
Amounts owed by fellow subsidiary undertakings	14,643	33,061
Other debtors	594	0
Prepayments and accrued income	5,009	0
	72,407	33,061

14 Creditors

	2008	2007
	£'000	£'000
<i>Amounts falling due within one year</i>		
Trade creditors	3,424	0
Amounts owed to parent company	375,206	0
Amounts owed to fellow subsidiary undertakings	13,694	0
Other creditors	242	0
Accruals and deferred income	19,323	0
	411,889	0

15 Creditors

	2008	2007
	£'000	£'000
<i>Amounts falling due between one and two years</i>		
Bank Loan	33,026	0
	33,026	0
<i>Amounts falling due between two and five years</i>		
Bank Loan	0	33,061
	0	33,061

- The company's borrowings are denominated in sterling.
- The fair value of financial assets and liabilities is the same as book value.
- Borrowings are secured by fixed charge on the company's real property, tangible moveable property, accounts, intellectual property, investments and goodwill save for the Combined Licences and all present and future parts of the Network operated from time to time by the company under the Combined Licences.

16 Provisions for liabilities and charges

	2008	2007
	£'000	£'000
<i>Deferred taxation</i>		
Accelerated capital allowances	20,077	0
Short term timing differences	(723)	0
	19,354	0
<i>Deferred tax liability</i>		
At 1 January 2008	0	0
Charged to profit and loss account	963	0
Transfer from fellow subsidiary on transfer of business	18,391	0
At 31 December 2008	19,354	0

17 Deferred income

	£'000
ERDF grant received	
At 1 January 2008	0
Transfer in (see Note 11)	2,652
Credit to profit and loss account	(52)
At 31 December 2008	2,600

18 Called up share capital

	2008	2007
	£	£
<i>Authorised:</i>		
Ordinary shares of £1 each	100,000	100,000
<i>Allotted and fully paid:</i>		
Ordinary shares of £1 each	2	2

19 Reconciliation of movements in reserves

	2008	2007
	£'000	£'000
At 1 January 2008	0	0
(Loss) for the financial year	(5,701)	0
Revenue reserves carried forward	(5,701)	0

20 Reconciliation of movements in shareholders' funds

	2008	2007
	£'000	£'000
Opening shareholders' funds	0	0
(Loss) for the financial year	(5,701)	0
Closing shareholders' funds	(5,701)	0

21 Pension commitments

The group operates under the provision of two pension schemes:

- (a) Group Personal Pension Scheme A – this is a defined contribution scheme set up to accommodate members transferring from the Water Companies' Pension Scheme. Enhanced employer contributions are made so as to align forecast benefits with those that would otherwise have accrued under the defined benefit Water Companies' Pension scheme. Separate life assurance is provided and paid by the company for all of these employees.

- (b) Group Personal Pension Scheme B – this is a defined contribution scheme which the company contributes directly towards. Separate life assurance is provided and paid by the company for all of these employees.

The total contributions to the above schemes during the year were £450,816 (2007:£nil).

22 Capital commitments

	2008	2007
	£'000	£'000
<i>Capital expenditure</i>		
Contracted for but not provided	3,811	0

23 Contingent liabilities

At 31 December 2008 the company had no contingent liabilities (31 December 2007: £nil).

24 Financial commitments

At 31 December 2008, the company had annual commitments under non-cancellable operating losses expiring as follows:

	Motor Vehicles 2008 £'000	Motor Vehicles 2007 £'000	Property 2008 £'000	Property 2007 £'000
Within one year	32	0	0	0
Within two to five years	420	0	0	0
After five years	0	0	520	0
	452	0	520	0

25 Related party disclosures

As the company is a wholly owned subsidiary of a UK incorporated company advantage has been taken of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

26 Ultimate controlling party

The immediate parent company and controlling company is Phoenix Distribution Holdings Limited, a company incorporated in England, with registered office address 5 New Street Square, London EC4A 3TW.

Kellen Investments Limited, (a subsidiary of Carmel Capital II Sarl), is the parent company of the largest group of companies of which Phoenix Distribution (Northern Ireland) Limited is a member and for which group accounts are drawn up.

The directors regard TFCP Holdings Limited, a company registered in Guernsey, to be the ultimate parent company and controlling party.

PART II

AUDITED FINANCIAL STATEMENTS OF PHOENIX NATURAL GAS LIMITED (FORMERLY PHOENIX DISTRIBUTION (NORTHERN IRELAND) LIMITED) AND AUDITORS' REPORT FOR THE 9 MONTHS ENDED 31 DECEMBER 2007

Directors and other information

Directors	P V Dixon W F M McKinstry A J Pollock (appointed 21 February 2008) I R Bell (appointed 21 February 2008)
Secretary	W FM McKinstry
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	Northern Bank Donegall Square West Belfast BT1 6JS Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB Citigroup Global Markets Limited 33 Canada Square Canary Wharf London E14 5LB
Solicitors	McKinty & Wright 5-7 Upper Queen Street Belfast BT1 6FS
Registered office	197 Airport Road West Belfast BT3 9ED
Company registration number	NI 32809

Directors' report

The directors present their report and the audited financial statements for the 9 months ended 31 December 2007.

Principal activities

The company did not trade during the period but commenced trade on 1st January 2008, the principal activity being the distribution of natural gas within the company's licence area. The company ceased being dormant on 31st December 2007 due to the novation of debt from Phoenix Natural Gas Ltd.

Review of business and future developments

From 1 January 2008, Phoenix Natural Gas transferred its distribution business into the company at market value.

In addition Phoenix Natural Gas' conveyance licence was assigned to the company in order to enable it to commence trading on that date.

Phoenix Energy Holdings Limited (PEHL) agreed terms of the sale of shares of the transmission business to NIEH in February 2008, subject to NIEH raising the necessary bond finance. On 31 March 2008, PEHL completed the sale of the company for £99.3m. The company sold was re-named Belfast Gas Transmission Limited, as the Phoenix Natural Gas brand has been retained by the distribution division.

The company's name will be changed from Phoenix Distribution (Northern Ireland) Limited to Phoenix Natural Gas Limited now that that sale of Phoenix Natural Gas (transmission division) has been completed.

Therefore from 1 January 2008 the company will be the owner and operator of the licence for the distribution network in the Greater Belfast Area and Larne. The company is responsible for the development of the pipeline and also for providing a 24/7 operational and transportation service platform to gas suppliers under the rules of the company's network code.

The network currently extends to 2,900 kilometres of medium and low pressure mains, which distribute natural gas throughout the licence area, representing around 50% of the population of Northern Ireland. The company manages the development of the both the physical network and market in Greater Belfast with already circa 115,000 customers having been connected to natural gas in the 11 years since natural gas first became available to Northern Ireland.

Key Performance Indicators

The company's directors are of the opinion that analysis using turnover, gross profit, operating profit and net assets as provided in the financial statements is sufficient to understand the development, performance and position of the business.

Post Balance Sheet Event

From 1 January 2008, the distribution business within Phoenix Natural Gas was transferred to the company. In addition Phoenix Natural Gas's licence was assigned to the company in order to enable it to commence trading on that date.

The company's name will be changed from Phoenix Distribution (Northern Ireland) Limited to Phoenix Natural Gas Limited now that the sale of Phoenix Natural Gas (the transmission division) has been completed.

Results and dividends

The company did not trade in the period. No dividend is recommended.

Political and charitable donations

The company made no charitable or political donations during the period (Mar 2007: £nil)

Directors and their interests

The directors who served during the period are shown on page 121.

Policy and practice on payment of creditors

The company is a registered supporter of the Better Payment Practice Group's 'Better Payment Practice Code' to which it subscribes when dealing with all of its suppliers. Copies of the Better Payment Practice Group's code are available from the Department of Trade & Industry. There were no trade creditors at the period end. It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and

each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

During the year KPMG were appointed as auditors. KPMG have expressed their willingness to continue in office as auditors and their formal re-appointment will be proposed at the next Annual General Meeting.

By order of the board

P V Dixon
Director

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK GAAP.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Northern Ireland) Order 1986. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Director's Report that complies with the Companies (Northern Ireland) Order 1986.

On behalf of the board

P V Dixon
Director

Independent auditors' report to the members of the Phoenix Distribution (Northern Ireland) Limited

We have audited the financial statements of Phoenix Distribution (Northern Ireland) Limited for the period ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 124.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its result for the period then ended;

- have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and
- the information given in the directors' report is consistent with the financial statements.

KPMG

3 July 2008

Chartered Accountants

Registered Auditor

Profit and loss account

	<i>Note</i>	9mths Dec07 £'000	12mths Mar07 £'000
Turnover	<i>2</i>	0	0
Cost of sales		0	0
Gross profit		0	0
Net operating expenses	<i>3</i>	0	0
Operating profit	<i>4</i>	0	0
Interest payable and similar charges		0	0
Interest receivable and similar income		0	0
Profit on ordinary activities before taxation		0	0
Taxation	<i>7</i>	0	0
Profit for the financial year	<i>17</i>	0	0

A statement of movements on reserves is given in Note 17

The notes on pages 130 to 137 form part of these financial statements.

All of the results of the company derive from continuing operations.

Statement of total recognised gains and losses

	9mths Dec07 £'000	12mths Mar07 £'000
Profit for the financial year	0	0
Total recognised gains/(losses) since last report	0	0

The notes on pages 130 to 137 form part of these financial statements.

Balance sheet

	<i>Note</i>	Dec-07 £'000	Mar-07 £'000
Fixed assets			
Tangible assets	8	0	0
Investments	9	0	0
		0	0
Current assets			
Stocks	10	0	0
Debtors: Amounts falling due within one year	11	33,061	0
Debtors: Amounts falling due after one year	11	0	0
Cash at bank and in hand		0	0
Total current assets		33,061	0
Creditors: Amounts falling due within one year	12	0	0
Net current assets		33,061	0
Total assets less current liabilities		33,061	0
Creditors: Amounts falling due after one year	13	(33,061)	0
Provisions for liabilities and charges	14	0	0
Deferred income	15	0	0
Net assets		0	0
Capital and reserves			
Called up share capital - ordinary	16	0	0
Profit and loss account	17	0	0
Equity shareholders' funds	18	0	0

On behalf of the board of directors

P V Dixon
Director

The notes on pages 130 to 137 form part of these financial statements.

Notes forming part of the financial statements

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies (Northern Ireland) Order 1986 and applicable accounting standards. The principal accounting policies are set out below.

Cash flow statement

In accordance with Financial Reporting Standard No.1, the company is exempt from the requirement to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis, beginning with the year following expenditure, over the expected useful economic lives of the assets concerned.

The economic lives used are as follows:

	Years
Distribution mains	- 60
Distribution services	- 35
Distribution meters	- 20
Office equipment and fixtures & fittings	- 5

Debtors

Debtors are stated after provision has been made against all debts considered doubtful of collection.

Pensions

The company operates two defined contribution pension schemes and costs are accounted for on the basis of charging the pension costs over the period during which the company will benefit from the employee's services.

Turnover

Turnover represents the invoiced value of goods supplied during the year excluding value added tax. Revenue from gas sales is recognised upon delivery of the product to the customer.

Deferred taxation

Deferred tax is recognised in respect of material timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences

between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Stocks

Stock has been valued at the lower of cost and net realisable value.

Government grants

The European Regional Development Grant relates specifically to capital expenditure on the transmission pipeline and is treated as deferred income which is then credited to the profit and loss account over the related asset's useful life.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

2 Analysis of turnover and profits

Turnover and profits relate to the company's main activity of gas distribution which is carried out in Northern Ireland.

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses.

4 Operating profit

This is stated after charging/(crediting):	9mths Dec07 £'000	12mths Mar07 £'000
Depreciation – owned assets	0	0
European Regional Development Grant release	0	0
Operating lease rentals	0	0
Auditors' remuneration	0	0

5 Employee information

The company had no employees during the period (31 March 2007: nil).

6 Directors' remuneration

The directors did not receive any remuneration from the company in the period (31 March 2007:nil).

7 Taxation charge

	9mths Dec07	12mths Mar07
	£'000	£'000
<i>Current tax</i>		
UK corporation tax for the period	0	0
Adjustments relating to earlier years	0	0
Total current tax charge	0	0
<i>Deferred tax (see note 14)</i>		
Origination/reversal of timing differences	0	0
Effect of reduction in tax rate	0	0
Adjustments relating to earlier years	0	0
Total deferred tax charge	0	0
Total tax charge	0	0
The current tax charge for the period is the same as (Mar 2007: the same as) than the standard rate of corporation tax in the UK. The differences are explained below:		
	9mths Dec07	12mths Mar07
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	0	0
Current tax at 30% (March 2007: 30%)	0	0
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0	0
Capital allowances for period in excess of depreciation	0	0
Adjustment relating to earlier years	0	0
Other timing differences	0	0
Total current tax charge	0	0

The directors are not aware of any factors that may have a significant impact on the future tax charge of the company.

8 Tangible fixed assets

	Office equipment £'000	Furniture & fixtures £'000	Distribution system £'000	Transmission pipeline £'000	Total £'000
Cost					
At 1 April 2007	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2007	0	0	0	0	0
Depreciation					
At 1 April 2007	0	0	0	0	0
Charge for the year	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2007	0	0	0	0	0
Net book value					
At 31 March 2007	0	0	0	0	0
At 31 December 2007	0	0	0	0	0

9 Investments

	Dec-07 £	Mar-07 £
Shares in subsidiary undertakings		
Cost		
At 1 April	0	0
Net book value		
At 31 December	0	0

10 Stock

	Dec-07 £'000	Mar-07 £'000
Stock of spares and meters	0	0

11 Debtors

	Dec-07	Mar-07
	£'000	£'000
<i>Amounts falling due within one year</i>		
Trade debtors	0	0
Amounts owed by parent company	0	0
Amounts owed by subsidiary undertaking	33,061	0
Other debtors	0	0
Prepayments and accrued income	0	0
	33,061	0
<i>Amounts falling due after one year</i>		
Other debtors	0	0

12 Creditors

	Dec-07	Mar-07
	£'000	£'000
<i>Amounts falling due within one year</i>		
Payments received on account	0	0
Trade creditors	0	0
Amounts owed to parent company	0	0
Amounts owed to subsidiary undertaking	0	0
Other creditors	0	0
Corporation tax	0	0
Other tax and social security	0	0
Accruals and deferred income	0	0
	0	0

13 Creditors

	31-Dec-07	31-Mar-07
	£'000	£'000
<i>Amounts falling due between two and five years</i>		
Bank Loan	33,061	0
Other	0	0
	33,061	0

On 31st December 2007 bank loans totalling £33,061k were novated from Phoenix Natural Gas Limited, a fellow subsidiary company of Phoenix Energy Holdings Limited, resulting in inter company debtors of £33,061k.

- There were no undrawn committed borrowing facilities.
- The company's borrowings are denominated in sterling.
- The fair value of financial assets and liabilities is the same as book value.
- Borrowings are secured by fixed charge on the company's real property, tangible moveable property, accounts, intellectual property, investments and goodwill save for the Combined Licences and all

present and future parts of the Network operated from time to time by the company under the Combined Licences.

14 Provisions for liabilities and charges

	Dec-07	Mar-07
	£'000	£'000
<i>Deferred taxation</i>		
Accelerated capital allowances	0	0
Short term timing differences	0	0
	0	0
<i>Deferred tax liability</i>		
At 1 April	0	0
Charged to profit and loss account	0	0
Prior year adjustment	0	0
Transfer to creditors falling due within one year	0	0
At 31 December	0	0

15 Deferred income

	Dec-07
	£'000
ERDF grant received	
At 31 March 2007	0
Credit to profit and loss account	0
At 31 December 2007	0

16 Called up share capital

	Dec-07	Mar-07
	£	£
<i>Authorised :</i>		
Ordinary shares of £1 each	100,000	100,000
<i>Allotted and fully paid:</i>		
Ordinary shares of £1 each	2	2

17 Reconciliation of movements in reserves

		Dec-07	Mar-07
		£'000	£'000
At 1 April 2007		0	0
Profit for the financial year		0	0
Revenue reserves carried forward		0	0

18 Reconciliation of movements in shareholders' funds

		Dec-07	Mar-07
		£'000	£'000
At 1 April 2007		0	0
Profit for the financial year		0	0
Shareholders' funds carried forward		0	0

19 Pension commitments

The group operates under the provision of two pension schemes:

- (a) Group Personal Pension Scheme A – this is a defined contribution scheme set up to accommodate members transferring from the Water Companies' Pension Scheme. Enhanced employer contributions are made so as to align forecast benefits with those that would otherwise have accrued under the defined benefit Water Companies' Pension scheme. Separate life assurance is provided and paid by the company for all of these employees.
- (b) Group Personal Pension Scheme B – this is a defined contribution scheme which the company contributes directly towards. Separate life assurance is provided and paid by the company for all of these employees.

20 Capital commitments

		Dec-07	Mar-07
		£'000	£'000
<i>Capital expenditure</i>			
Contracted for but not provided		0	0

21 Contingent liabilities

At 31 December 2007 the company had no contingent liabilities (2007: £Nil).

22 Financial commitments

At 31 December 2007 the company had no annual commitments under non cancellable operating leases.

23 Related party disclosures

As the company is a wholly owned subsidiary of a UK incorporated company advantage has been taken of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

24 Ultimate controlling party

The immediate parent company and controlling company is Phoenix Distribution Holdings Limited, a company incorporated in England, with registered office address Carmelite, 50 Victoria Embankment, Blackfriars, London EX4Y ODX.

Kellen Investments Limited, (a subsidiary of Carmel Capital II Sarl), is the parent company of the largest group of companies of which Phoenix Distribution (Northern Ireland) Limited is a member and for which group accounts will be drawn up.

The directors regard TFCP Holdings Limited, a company registered in Guernsey, to be the ultimate parent company and controlling party.

25 Post balance sheet event

From 1 January 2008, the distribution business within Phoenix Natural Gas was transferred to the company. In addition Phoenix Natural Gas's licence was assigned to the company in order to enable it to commence trading on that date.

The company's name will be changed from Phoenix Distribution (Northern Ireland) Limited to Phoenix Natural Gas Limited now that the sale of Phoenix Natural Gas (the transmission division) has been completed.

APPENDIX B
INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS OF PDHL

PART I

**AUDITED FINANCIAL STATEMENTS OF PHOENIX DISTRIBUTION HOLDINGS
LIMITED AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDING 31
DECEMBER 2008**

Directors and other information

Directors	P V Dixon W F M McKinstry
Secretary	L&B Secretaries
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	Northern Bank Donegall Square West Belfast BT1 6JS Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB Citigroup Global Markets Limited 33 Canada Square Canary Wharf London E14 5LB
Registered office	5 New Street Square London EC4A 3TW
Company registration number	06455596

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The company is an intermediate holding company. The company was created on 18th December 2007 and dormant until 31st December 2007. The company ceased being dormant on 31st December 2007 due to novation of debt from Kellen Acquisitions Limited.

Review of business and future developments

From 1 January 2008, Phoenix Natural Gas Limited (NI 26420) transferred its distribution division into a new separate legal entity, Phoenix Distribution (Northern Ireland) Limited (NI 32809), a 100% subsidiary of the company, later to be renamed Phoenix Natural Gas Limited.

The company is indirectly a 100% subsidiary of Kellen Investments Limited and full details of the business undertaken by the distribution division are contained within the annual report and accounts of this company.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of Kellen Investments Limited and are not managed separately. Accordingly the principal risks and uncertainties are discussed in the annual report and accounts of Kellen Investments Limited, which does not form part of this report.

Key Performance Indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. A discussion of the development, performance and position of the business in the context of the group as a whole is provided in the group's annual report which does not form part of this report.

Results and dividends

The profit for the year is £2,170,225 (2007:£nil). No dividend is recommended.

Political and charitable donations

The company made no charitable donations during the year (2007:£nil). No donations for political purposes were made during the year.

Directors and their interests

The directors who served during the year are shown on page 138.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and

each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

During the year KPMG were appointed as auditors. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office.

By order of the board

W F M McKinstry

Director

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors Report that complies with the Companies Act 1985.

On behalf of the board

W F M McKinstry

Director

Independent auditors' report to the members of the Phoenix Distribution Holdings Limited

We have audited the financial statements of Phoenix Distribution Holdings Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members as a body in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 141.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

KPMG

7 August 2009

Chartered Accountants

Registered Auditor

Profit and loss account

		Year ended 31	13 days ended 31
	<i>Note</i>	December 2008	December 2007
		£'000	£'000
Turnover	2	0	0
Cost of sales		0	0
Gross profit		0	0
Net operating expenses	3	(8)	0
Operating loss	4	(8)	0
Interest payable and similar charges	6	(10,739)	0
Interest receivable and similar income	7	13,782	0
Profit on ordinary activities before taxation		3,035	0
Taxation	9	(865)	0
Profit for the financial year	17	2,170	0

A reconciliation of movements on reserves is given in Note 17.

The notes on pages 147 to 153 form part of these financial statements.

All of the results of the company derive from continuing operations.

Statement of total recognised gains and losses

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
Profit for the financial year	2,170	0
Total recognised gains/(losses) since last report	2,170	0

The notes on pages 147 to 153 form part of these financial statements.

Balance sheet

	<i>Note</i>	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	<i>10</i>	0	0
Investments	<i>11</i>	0	0
		0	0
Current assets			
Debtors: Amounts falling due within one year	<i>12</i>	200,260	186,478
Cash at bank and in hand		0	0
Total current assets		200,260	186,478
Creditors: Amounts falling due within one year	<i>13</i>	(15,622)	(3,496)
Net current assets		184,638	182,982
Total assets less current liabilities		184,638	182,982
Creditors: Amounts falling due after one year	<i>14</i>	(182,468)	(182,982)
Provisions for liabilities and charges	<i>15</i>	0	0
Net assets		2,170	0
Capital and reserves			
Called up share capital	<i>16</i>	0	0
Profit and loss account	<i>17</i>	2,170	0
Shareholders' funds	<i>18</i>	2,170	0

On behalf of the board of directors

W F M McKinstry

Director

The notes on pages 147 to 153 form part of these financial statements.

Notes forming part of the financial statements

1 Accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

Basis of preparation

The company is exempt by virtue of the Companies Act 1985 from the requirement to prepare group financial statements on the grounds that its results are included in the group accounts of Kellen Investments Limited which are publicly available. These financial statements present information about the company as an individual undertaking and not about its group.

Going Concern

The Company has opened negotiations with bankers about its future borrowing needs in order to agree the terms of new facilities for all its business activities.

The Company's subsidiary undertaking Phoenix Natural Gas Limited is financed through bank debt loan facilities made up of a term facility, a capital investment facility to support continued investment in its infrastructure assets and a revolving facility in order to meet its general working capital requirements. This debt facility is due for renewal in April 2010.

The forecasts and projections for Phoenix Natural Gas Limited, taking account of reasonable levels of possible changes in trading performance, show that Phoenix Natural Gas Limited is capable of operating well within the level of its current facilities and also able to meet all its covenant requirements until they mature.

Phoenix Natural Gas Limited is in discussions with bankers and rating agencies in order to acquire an investment grade rating which is also consistent with proposed new regulatory licence obligations on ring fencing.

Whilst no written commitment is in place for new debt facilities, no matter has been drawn to the attention of the directors to suggest that renewal may not be forthcoming on acceptable terms.

As a result of the above the directors consider it appropriate to prepare the financial statements on a going concern basis.

Cash flow statement

In accordance with Financial Reporting Standard No.1, the company is exempt from the requirement to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Debtors

Debtors are stated after provision has been made against all debts considered doubtful of collection.

Deferred taxation

Deferred tax is recognised in respect of material timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Investments

Investments held by the company in subsidiary undertakings are stated at cost less amounts written off.

Financial Instruments

The company is party to a number of interest rate swaps undertaken to eliminate interest rate exposure on its borrowings. The company's hedging policy is to convert substantially all floating rate borrowings to a fixed rate. Interest payments arising from interest rate swaps are recorded on an accruals basis, with amounts payable or receivable in respect of these instruments being recognised as adjustments to the interest expense of the hedged liability.

2 Analysis of turnover and profits

The company is a holding company and has made no supply of goods or services in the year.

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses.

4 Operating loss

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
This is stated after charging/(crediting):		
Auditors' remuneration	5	0

KPMG were paid £nil during the year for non-audit related services (2007: £nil).

5 Employee information

The company had no employees during the year (2007: nil).

6 Interest payable and similar charges

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
Amounts payable on bank loans and overdrafts	10,194	0
Amounts payable on inter-company loans	545	0
	10,739	0

7 Interest receivable and similar income

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
Amounts receivable on inter-company loans	13,782	0

8 Directors' remuneration

The directors did not receive any remuneration from the company in the year (2007:£nil).

9 Taxation charge

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
<i>Current tax</i>		
UK corporation tax for the period	865	0
Total current tax charge	865	0
<i>Deferred tax (see note 15)</i>		
Origination/reversal of timing differences	0	0
Total deferred tax charge	0	0
Total tax charge	865	0

The current tax charge for the period is the same as the standard rate of corporation tax in the UK as shown below:

	Year ended 31 December 2008	13 days ended 31 December 2007
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	3,035	0
Current tax at 28.5%	865	0
<i>Effects of:</i>		
Capital allowances for period in excess of depreciation	0	0
Total current tax charge	865	0

The directors are not aware of any factors that may have a significant impact on the future tax charge of the company.

10 Tangible fixed assets

	Office equipment £'000	Furniture & fixtures £'000	Distribution system £'000	Transmission pipeline £'000	Total £'000
Cost					
At 1 January 2008	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2008	0	0	0	0	0
Depreciation					
At 1 January 2008	0	0	0	0	0
Charge for the year	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2008	0	0	0	0	0
Net book value					
At 31 December 2007	0	0	0	0	0
At 31 December 2008	0	0	0	0	0

11 Investments

The investment relates to ordinary share capital in Phoenix Natural Gas Ltd.

	£
Shares in subsidiary undertakings	
Cost	
At 1 January 2008 and 31 December 2008	2
Net book value	
At 31 December 2008	2

12 Debtors

	2008 £'000	2007 £'000
Amounts falling due within one year		
Amounts owed by parent company	199,444	186,478
Amounts owed by subsidiary undertaking	0	0
Prepayments and accrued income	816	0
	200,260	186,478

13 Creditors

	2008	2007
	£'000	£'000
<i>Amounts falling due within one year</i>		
Amounts owed to parent company	5,747	3,496
Amounts owed to subsidiary undertaking	9,331	0
Corporation tax	0	0
Accruals and deferred income	544	0
	15,622	3,496

14 Creditors

	£'000	£'000
<i>Amounts falling due between one and two years</i>		
Bank loan	182,468	0
	182,468	0
<i>Amounts falling due between two and five years</i>		
Bank loan	0	182,982
	0	182,982

- The company's borrowings are denominated in sterling.
- The company has entered into a number of interest rate swaps with a view to eliminating interest rate exposures on the borrowings. As a consequence, interest arising on the term facilities is payable at a fixed rate for the full term of the debt.
- The fair value of financial assets and liabilities is the same as book value except for the swaps which are £8,119,478 below book value (2007: £3,204,179 above book value).
- Borrowings are secured by fixed charge on the company's real property, tangible moveable property, accounts, intellectual property, investments and goodwill save for the Combined Licences and all present and future parts of the Network operated from time to time by the company under the Combined Licences.

15 Provisions for liabilities and charges

	2008	2007
	£'000	£'000
<i>Deferred taxation</i>		
Accelerated capital allowances	0	0
Short term timing differences	0	0
	0	0
<i>Deferred tax liability</i>		
At 1 January 2008	£'000	£'000
	0	0
Charged to profit and loss account	0	0
Transfer to creditors falling due within one year	0	0
At 31 December 2008	0	0

16 Called up share capital

	2008	2007
	£	£
<i>Authorised:</i>		
Ordinary shares of £1 each	100,000	100,000
<i>Allotted and fully paid:</i>		
Ordinary shares of £1 each	2	2

17 Reconciliation of movements in reserves

	2008	2007
	£'000	£'000
At 1 January	0	0
Profit for the year	2,170	0
At 31 December	2,170	0

18 Reconciliation of movements in shareholders' funds

	2008	2007
	£'000	£'000
Opening shareholders' funds	0	0
Profit for the financial year	2,170	0
Closing shareholders' funds	2,170	0

19 Capital commitments

	2008	2007
	£'000	£'000
<i>Capital expenditure</i>		
Contracted for but not provided	0	0

20 Contingent liabilities

At 31 December 2008 the company had no contingent liabilities (31 December 2007: £nil).

21 Financial commitments

At 31 December 2008 the company had no annual commitments under non cancellable operating leases (31 December 2007: £nil).

22 Related party disclosures

As the company is a wholly owned subsidiary of a U.K. incorporated company advantage has been taken of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

23 Ultimate controlling party

The immediate parent company and controlling company is Phoenix Energy Holdings Limited, a company incorporated in England, with registered office address 5 New Street Square, London EC4A 3TW.

Kellen Investments Limited, (a subsidiary of Carmel Capital II Sarl), is the parent company of the largest group of companies of which Phoenix Distribution Holdings Limited is a member and for which group accounts will be drawn up and can be obtained from the above address.

The directors regard TFCP Holdings Limited, a company registered in Guernsey, to be the ultimate parent company and controlling party.

PART II

AUDITED FINANCIAL STATEMENTS OF PHOENIX DISTRIBUTION HOLDINGS LIMITED AND INDEPENDENT AUDITORS' REPORT FOR THE 13 DAYS ENDED 31 DECEMBER 2007

Directors and other information

Directors	P V Dixon (appointed 17 December 2007) W F M McKinstry (appointed 17 December 2007)
Secretary	L&B Secretaries (appointed 17 December 2007)
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	Northern Bank Donegall Square West Belfast BT1 6JS Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB Citigroup Global Markets Limited 33 Canada Square Canary Wharf London E14 5LB
Registered office	Carmelite 50 Victoria Embankment Blackfriars London EC4Y 0DX
Company registration number	06455596

Directors' report

The directors present their report and the audited financial statements for the 13 days ended 31 December 2007.

Principal activities

The company is an intermediate holding company. The company was created on 18th December 2007 and dormant until 31st December 2007. The company ceased being dormant on 31st December 2007 due to novation of debt from Kellen Acquisitions Limited.

Review of business and future developments

From 1 January 2008, Phoenix Natural Gas transferred its distribution division into a new separate legal entity, Phoenix Distribution (Northern Ireland) Limited, a 100% subsidiary of the company.

The company is indirectly a 100% subsidiary of Kellen Investments Limited and full details of the business undertaken by the distribution division are contained within the annual report and accounts of this company.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of Kellen Investments Limited and are not managed separately. Accordingly the principal risks and uncertainties are discussed in the annual report and accounts of Kellen Investments Limited, which does not form part of this report.

Post Balance Sheet Event

From 1 January 2008, Phoenix Natural Gas transferred its distribution division into a new separate legal entity, Phoenix Distribution (Northern Ireland) Limited. This company will be re-named Phoenix Natural Gas Limited now that the sale of the transmission division (previously known as Phoenix Natural Gas) has been completed.

Results and dividends

The profit for the period is £nil. No dividend is recommended.

Political and charitable donations

The company made no charitable donations during the period. No donations for political purposes were made during the period.

Directors and their interests

The directors who served during the year are shown on page 154.

Policy and practice on payment of creditors

The company is a registered supporter of the Better Payment Practice Group's 'Better Payment Practice Code' to which it subscribes when dealing with all of its suppliers. Copies of the Better Payment Practice Group's code are available from the Department of Trade & Industry. There were no trade creditors at the period end. It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and

each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

During the year KPMG were appointed as auditors. KPMG have expressed their willingness to continue in office as auditors and their formal re-appointment will be proposed at the next Annual General Meeting.

By order of the board

Director

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK GAAP.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are also responsible for preparing a Directors Report that complies with the Companies Act 1985.

On behalf of the board

Director

Independent auditors' report to the members of Phoenix Distribution Holdings Limited

We have audited the financial statements of Phoenix Distribution Holdings Limited for the period ended 31 December 2007 which comprise the profit and loss Account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 157.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (U.K. and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Northern Ireland) Order 1986. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its result for the period then ended;
- have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986; and

- the information given in the directors' report is consistent with the financial statements.

KPMG

3 July 2008

Chartered Accountants

Registered Auditor

Profit and loss account

	<i>Note</i>	13days Dec07 £'000
Turnover	<i>2</i>	0
Cost of sales		0
Gross profit		0
Net operating expenses	<i>3</i>	0
Operating profit	<i>4</i>	0
Interest payable and similar charges		0
Interest receivable and similar income		0
Profit on ordinary activities before taxation		0
Taxation	<i>7</i>	0
Profit for the financial year	<i>15</i>	0

A reconciliation of movements on reserves is given in Note 15.

The notes on pages 163 to 168 form part of these financial statements.

All of the results of the company derive from continuing operations.

Statement of total recognised gains and losses

13 days Dec07
£'000

Profit for the financial year	0
Total recognised gains/(losses) since last report	0

The notes on pages 163 to 168 form part of these financial statements.

Balance sheet

	<i>Note</i>	Dec-07 £'000
Fixed assets		
Tangible assets	8	0
Investments	9	0
		0
Current assets		
Debtors: Amounts falling due within one year	10	186,478
Cash at bank and in hand		0
Total current assets		186,478
Creditors: Amounts falling due within one year	11	(3,496)
Net current assets		182,982
Total assets less current liabilities		182,982
Creditors: Amounts falling due after one year	12	(182,982)
Provisions for liabilities and charges	13	0
Net assets		0
Capital and reserves		
Called up share capital	14	0
Profit and loss account	15	0
Shareholders' funds	16	0

On behalf of the board of directors

Director

The notes on pages 163 to 168 form part of these financial statements.

Notes forming part of the financial statements

1 Accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies (Northern Ireland) Order 1986 and applicable accounting standards. The principal accounting policies are set out below.

Basis of preparation

The company is exempt by virtue of the Companies (Northern Ireland) 1986 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Cash flow statement

In accordance with Financial Reporting Standard No.1, the company is exempt from the requirement to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Debtors

Debtors are stated after provision has been made against all debts considered doubtful of collection.

Deferred taxation

Deferred tax is recognised in respect of material timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Investments

Investments held by the company in subsidiary undertakings are stated at cost less amounts written off.

Derivative Financial Instruments

The company is party to a number of interest rate swaps undertaken to eliminate interest rate exposure on its borrowings. The company's hedging policy is to convert substantially all floating rate borrowings to a fixed rate. Interest payments arising from interest rate swaps are recorded on an accruals basis, with amounts payable or receivable in respect of these instruments being recognised as adjustments to the interest expense of the hedged liability.

2 Analysis of turnover and profits

The company is a holding company and has made no supply of goods or services in the period.

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses.

4 Operating profit

This is stated after charging/(crediting):		13days Dec07
		£'000
Auditors' remuneration		0

5 Employee information

The company had no employees during the period.

6 Director's remuneration

The directors did not receive any remuneration from the company in the period.

7 Taxation charge

		13days Dec07
Current tax		£'000
UK corporation tax for the period		0
Total current tax charge		0
Deferred tax (see note 14)		
Origination/reversal of timing differences		0
Total deferred tax charge		0
Total tax charge		0
The current tax charge for the period is the same as the standard rate of corporation tax in the UK as shown below:		
		13days Dec07
Current tax reconciliation		£'000
Profit on ordinary activities before tax		0
Current tax at 30%		0
Effects of:		
Capital allowances for period in excess of depreciation		0
Total current tax charge		0

The directors are not aware of any factors that may have a significant impact on the future tax charge of the company.

8 Tangible fixed assets

	Office equipment £'000	Furniture & fixtures £'000	Distribution system £'000	Transmission pipeline £'000	Total £'000
Cost					
At 18 December 2007	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2007	0	0	0	0	0
Depreciation					
At 18 December 2007	0	0	0	0	0
Charge for the year	0	0	0	0	0
Disposals	0	0	0	0	0
At 31 December 2007	0	0	0	0	0
Net book value					
At 18 December 2007	0	0	0	0	0
At 31 December 2007	0	0	0	0	0

9 Investments

	Dec-07 £
Shares in subsidiary undertakings	
Cost	
At 31 December	2
Net book value	
At 31 December	2

The investment relates to ordinary share capital in Phoenix Distribution (Northern Ireland) Ltd, which has been used as the vehicle to take over the distribution activities of Phoenix Natural Gas Ltd. on 1st January 2008.

10 Debtors

	Dec-07 £'000
Amounts falling due within one year	
Amounts owed by parent company	186,478
Amounts owed by subsidiary undertaking	0
Prepayments and accrued income	0
	186,478

11 Creditors

		Dec-07
		£'000
<i>Amounts falling due within one year</i>		
Amounts owed to parent company		3,496
Amounts owed to subsidiary undertaking		0
Accruals and deferred income		0
		3,496

12 Creditors

		Dec-07
		£'000
<i>Amounts falling due between two and five years</i>		
Bank Loan		182,982
Other		0
		182,982

On 31st December 2007 bank loans totalling £182,982k were novated from Kellen Acquisitions Limited and Phoenix Energy Holdings Limited, fellow subsidiary companies of Kellen Investments Limited resulting in inter company debtors (<1year) of £186,478k and inter company creditors (<1 year) of £3,496k.

- There were no undrawn committed borrowing facilities.
- The company's borrowings are denominated in sterling.
- The company has entered into a number of interest rate swaps with a view to eliminating interest rate exposures on the borrowings. As a consequence, interest arising on the term facilities is payable at a fixed rate for the full term of the debt.
- The fair value of financial assets and liabilities is the same as book value except for the swaps which are £3,204,179 below book value.
- Borrowings are secured by fixed charge on the company's real property, tangible moveable property, accounts, intellectual property, investments and goodwill save for the Combined Licences and all present and future parts of the Network operated from time to time by the company under the Combined Licences.

13 Provisions for liabilities and charges

	Dec-07
	£'000
<i>Deferred taxation</i>	
Accelerated capital allowances	0
Short term timing differences	0
	0
<i>Deferred tax liability</i>	
At 18 December	0
Charged to profit and loss account	0
Transfer to creditors falling due within one year	0
At 31 December	0

14 Called up share capital

	Dec-07
	£
<i>Authorised :</i>	
Ordinary shares of £1 each	100,000
<i>Allotted and fully paid:</i>	
Ordinary shares of £1 each	2

15 Reconciliation of movements in reserves

	Dec-07
	£'000
At 17 December 07	0
Profit for the period	0
Revenue reserves carried forward	0

16 Reconciliation of movements in shareholders' funds

	Dec-07
	£'000
At 17 December 07	0
Profit for the period	0
Shareholders' funds carried forward	0

17 Capital commitments

	Dec-07
	£'000
<i>Capital expenditure</i>	
Contracted for but not provided	0

18 Contingent liabilities

At 31 December 2007 the company had no contingent liabilities.

19 Financial commitments

At 31 December 2007 the company had no annual commitments under non cancellable operating leases.

20 Related party disclosures

As the company is a wholly owned subsidiary of a UK incorporated company advantage has been taken of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

21 Ultimate controlling party

The immediate parent company and controlling company is Phoenix Energy Holdings Limited, a company incorporated in England, with registered office address Carmelite, 50 Victoria Embankment, Blackfriars, London EX4Y ODX.

Kellen Investments Limited, (a subsidiary of Carmel Capital II Sarl), is the parent company of the largest group of companies of which Phoenix Distribution Holdings Limited is a member and for which group accounts will be drawn up and can be obtained from the above address.

The directors regard TFCP Holdings Limited, a company registered in Guernsey, to be the ultimate parent company and controlling party.

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