

## PROSPECTUS



# SOUTHERN GAS NETWORKS PLC

(incorporated with limited liability under the laws of England and Wales under registered number 05167021)

# SCOTLAND GAS NETWORKS PLC

(incorporated with limited liability under the laws of Scotland under registered number SC264065)

**£5,000,000,000**

## Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Prospectus (the “Programme”), each of Southern Gas Networks plc (“Southern GN”) and Scotland Gas Networks plc (“Scotland GN”) (together, the “Issuers” and each an “Issuer”), subject to compliance with all relevant laws, regulations and directives, may, from time to time, issue notes (“Notes”). The aggregate nominal amount of Notes outstanding will not at any time exceed £5,000,000,000 (or the equivalent in other currencies), subject to increase in accordance with the terms of the Programme Agreement (as defined herein).

Application has been made to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Notes to be admitted to trading on the Regulated Market of the London Stock Exchange (the “Market”). References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

The requirement to publish a prospectus under the Prospectus Directive (as defined herein) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). References in this Prospectus to “Exempt Notes” are to Notes for which no prospectus is required to be published under the Prospectus Directive. The UK Listing Authority has neither approved nor reviewed information contained in this Prospectus in connection with Exempt Notes.

Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency on the relevant date of issue as agreed between the relevant Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue.

Each Series of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “Temporary Global Note”) or a permanent global note in bearer form (each a “Permanent Global Note”) (together, the “Global Notes”).

If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“New Global Note” or “NGN”) form, they will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream Luxembourg”).

Global Notes which are not issued in NGN form (“Classic Global Notes” or “CGNs”) will be delivered on or prior to the original issue date of the relevant Tranche to a common depository (the “Common Depository”) for Euroclear and Clearstream, Luxembourg.

Each series of Notes issued in registered form will be represented on issue by beneficial interests in one or more global certificates (each a “Global Certificate”) which will be deposited with and registered in the name of a nominee for (i) the Common Depository (where the Global Certificate is not to be held in the New Safekeeping Structure (the “NSS”)) or (ii) the Common Safekeeper (where the Global Certificate is to be held in the NSS).

The provisions governing the exchange of interests in Global Notes for other Global Notes or for Notes in definitive bearer form and the exchange of Global Certificates for Notes in definitive registered form are described in “Summary of Provisions Relating to the Notes while in Global Form”.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a final terms document (the “Final Terms”) which, with respect to Notes to be listed on the Market, will be delivered to the UK Listing Authority and the London Stock Exchange. Copies of the Final Terms in relation to Notes to be listed on the Market will be published on the website of the London Stock Exchange through a regulatory information service. In the case of Exempt Notes, notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche of Exempt Notes will be set out in a pricing supplement document (the “Pricing Supplement”).

**Prospective investors should have regard to the factors described in the section entitled “Risk Factors” in this Prospectus.**

The long term unsecured, unguaranteed and unsubordinated debt obligations of each Issuer are, as at the date of this Prospectus rated: BBB by Standard & Poor’s Credit Market Services Europe Limited (“Standard & Poor’s), Baa1 by Moody’s Investors Service Ltd. (“Moody’s”) and BBB+ by Fitch Ratings Ltd (“Fitch”). As at the date of this Prospectus, each of Standard & Poor’s, Moody’s and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”).

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated such rating will not necessarily be the same as the ratings assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms (or the relevant Pricing Supplement in the case of Exempt Notes). A security 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.

**Arranger**

**Barclays**

**Dealers**

**Barclays  
Lloyds Bank**

**The Royal Bank of Scotland**

**CIBC  
RBC Capital Markets**

The date of this Prospectus is 17 October 2014

Unless otherwise specified, all references in this Prospectus to the “Prospectus Directive” refer to Directive 2003/71/EC (and amendments thereto including the 2010 PD Amending Directive) and all references to the “2010 PD Amending Directive” refer to Directive 2010/73/EU provided, however, that all references in this Prospectus to the “Prospectus Directive” in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the PD Amending Directive, to the extent implemented in the relevant Member State), and include any relevant implementing measure in the relevant Member State.

This Prospectus, together with all documents which are deemed to be incorporated herein by reference (see the section entitled “Documents Incorporated by Reference”) comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive. This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Each Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of each Issuer, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference”). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by either Issuer, Scotia Gas Networks Limited (“SGN”), any of the Dealers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of either Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of either Issuer, any Dealer or the Trustee to any person to subscribe for or to purchase any Notes.

No person is or has been authorised by either of the Issuers to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by either Issuer, SGN, the Trustee or any of the Dealers or the Arranger (as defined in “Issuer and Programme Description”).

None of the delivery of this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) or any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of either of the Issuers 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 either of the Issuers since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme 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. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of either of the Issuers during the life of the Programme or to advise any investor or potential investor in the Notes of any information coming to their attention.

The distribution of this Prospectus, any Final Terms (or Pricing Supplement in the case of Exempt Notes) and the offering or sale of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) comes are required by the Issuers, the Dealers and the Arranger to inform themselves about and to observe any such restriction.

For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes), see “Subscription and Sale”.

Neither this Prospectus nor any Final Terms (or Pricing Supplement in the case of Exempt Notes) constitutes an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The Issuers, the Dealers and the Trustee do not represent that this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus any Final Terms (or Pricing Supplement in the case of Exempt Notes) and the offering and sale of Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes may include bearer Notes that are subject to United States tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold or, in the case of bearer Notes, delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in the United States Internal Revenue Code of 1986, as amended, and regulations thereunder).

Neither this Prospectus nor any Final Terms (or Pricing Supplement in the case of Exempt Notes) constitutes an offer of, or an invitation by or on behalf of the Issuers, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

The Arranger, the Trustee and the Dealers have not separately verified the information contained in this Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any financial statements incorporated by reference herein should be considered as a recommendation by either of the Issuers, the Arranger or the Dealers that any recipient of this Prospectus, any Final Terms (or Pricing Supplement in the case of Exempt Notes) or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in, or incorporated by reference in, this Prospectus or any Final Terms (or Pricing Supplement in the case of Exempt Notes) and its purchase of Notes should be based upon such investigation as it deems necessary. No Dealer nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by either of the Issuers in connection with the Programme.

This Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither of the Issuers nor any Dealer has authorised, nor does any such person authorise, the making of any offer of Notes in circumstances in which an obligation arises for the relevant Issuer or any Dealer to publish or supplement a prospectus for such offer.

**In connection with the issue of any Tranche (as defined in “Issuer and Programme Description”) of Notes, the Dealer or Dealers (if any) acting as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising**

**Manager(s)) 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 relevant Tranche of Notes 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 relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

The Notes may not be a suitable investment for all investors. Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the relevant Notes and is familiar with the behaviour of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "pounds sterling", "£" and "GBP" are to the legal currency of the United Kingdom, to "euro", "€" and "EUR" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, to "C\$" and "CAD" are to the legal currency of Canada, to "US\$" and "USD" are to the legal currency of the United States, to "UK" are to the United Kingdom and to "U.S." and "United States" are to the United States of America.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the Annual Reports of each Issuer for the financial years ended March 2014 and March 2013 (set out in “*Cross Reference List*” below). Such documents have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Conduct Authority. Such documents shall be deemed to be incorporated in, and to form part of, this Prospectus save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any further information or documents incorporated by reference in the documents incorporated by reference above does not form part of, and shall not be deemed to be incorporated into, this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the relevant Issuer and from the specified office of the Paying Agent for the time being in London. In addition, copies of such documents will be available on the website of the Regulatory News Service operated by the London Stock Exchange, <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

### Cross Reference List

- (i) Annual Report of Southern GN for the financial year ended 31 March 2014 (which includes the auditors’ report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2014).
- (ii) Annual Report of Southern GN for the financial year ended 31 March 2013 (which includes the auditors’ report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2013).
- (iii) Annual Report of Scotland GN for the financial year ended 31 March 2014 (which includes the auditors’ report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2014).
- (iv) Annual Report of Scotland GN for the financial year ended 31 March 2013 (which includes the auditors’ report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2013).

Documents which are referred to or incorporated by reference into the documents listed above do not form part of this Prospectus.

Any non-incorporated parts of a document referred to in the documents listed above are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

### Supplementary Prospectus

If at any time an Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the Financial Services and Markets Act 2000 (“FSMA”), such Issuer will prepare and make available a supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

Each Issuer confirms that if at any time during the duration of the Programme there arises or is noted a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses and prospects of such Issuer and/or the rights attaching to the Notes to be issued by it, that Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of Notes to be issued by it.

## TABLE OF CONTENTS

OVERVIEW OF THE SCOTIA GAS NETWORKS GROUP.....	8
ISSUER AND PROGRAMME DESCRIPTION.....	11
RISK FACTORS .....	16
TERMS AND CONDITIONS OF THE NOTES.....	23
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM....	55
USE OF PROCEEDS .....	59
BUSINESS DESCRIPTION .....	60
MANAGEMENT .....	69
UNITED KINGDOM TAXATION.....	73
SUBSCRIPTION AND SALE .....	75
FORM OF FINAL TERMS.....	80
FORM OF PRICING SUPPLEMENT.....	88
LISTING AND GENERAL INFORMATION.....	95

## OVERVIEW OF THE SCOTIA GAS NETWORKS GROUP

*This section contains an overview of the business, regulatory and organisational structure of the Issuers. This overview does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus.*

### **The Businesses**

On 1 May 2005 National Grid Gas plc (“NGG”) (then known as Transco plc, a wholly owned subsidiary of National Grid plc), transferred the assets (including the personnel and the gas transporters’ licences granted to each Issuer by the Gas and Electricity Markets Authority (“GEMA”) under the Gas Act 1986 (as amended) (each a “GT Licence”)) and liabilities of the south of England and Scotland gas distribution networks into Southern GN and Scotland GN, which were newly created wholly owned subsidiaries of NGG.

On 1 June 2005, SGN completed its acquisition of all of the shares in each of Southern GN and Scotland GN from NGG (the “Acquisitions”). This was part of a wider disposal by NGG of four gas distribution networks (individually, a “DN”).

### **Shareholders**

The shareholders of SGN are SSE plc (“SSE”) (as to 50 per cent.), Borealis Infrastructure Europe (UK) Limited (“BIEUK”) (as to 25 per cent.) and OTPPB Investments (U.K.) Limited (“OIUK”) (as to 25 per cent.). They have entered into a shareholders’ agreement (the “Shareholders’ Agreement”) governing the exercise of their rights in SGN.

SSE, which was formed in December 1998 by the merger of Scottish Hydro-Electric plc and Southern Electric plc, is a FTSE-100 company and is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; electrical, environmental and utility contracting; and telecoms.

BIEUK is indirectly wholly owned by OMERS Administration Corporation (“OMERS”). OMERS is responsible for the pension income of over 440,000 members employed or formerly employed by Ontario Municipalities or their related agencies. OMERS has a AAA credit rating from Standard & Poor’s and has over C\$66.3 billion in net investment assets. Borealis Infrastructure Management Inc. (“Borealis”), which manages BIEUK, identifies, invests in and manages infrastructure assets on behalf of OMERS. Borealis currently manages equity infrastructure investments of approximately C\$12.0 billion in Canada, the United States and Europe.

OIUK is owned by the Ontario Teachers’ Pension Plan (“OTPP”), which is an independent corporation responsible for investing and administering the pensions of Ontario’s 307,000 working and retired teachers. With net assets of C\$140.8 billion as at 31 December 2013, it is one of the largest financial institutions in Canada. OTPP is a significant long-term holder of infrastructure assets in North America, Europe, South America and Australia. As at 31 December 2013 its infrastructure investments totalled C\$11.7 billion.

### **Principal Activities**

The principal activities of the Issuers are the transportation of gas and the ownership, operation and development of the gas transportation network in their respective areas of operation. Southern GN operates in the south of England in an area which includes the London boroughs to the south of the River Thames and covering Milton Keynes in the north, Dover in the east and Lyme Regis in the west. Scotland GN operates in the whole of Scotland.

### **Objectives and strategy**

The principal objectives of the Issuers are to deliver natural gas safely, reliably and efficiently across the gas distribution network and to provide the highest standard of service to their stakeholders, whilst delivering value to their shareholders. This strategy, therefore, places the highest emphasis on ensuring that activities are carried out safely and that the networks operate in a reliable and efficient manner, so that benchmarks and regulatory targets can be exceeded to the benefit of all of the Issuers’ stakeholders.



The overall financial objective of the Issuers is to focus on operational efficiency and the efficient delivery of capital and replacement expenditure programmes. Therefore, financial objectives are set to ensure that regulatory targets are achieved or outperformed.

The financing objective of the Issuers is to ensure an efficient capital structure that mitigates interest rate risk through maintaining a minimum of 75 per cent. of debt at rates of interest that are either fixed or index linked.

## **Management**

The Board of Directors of SGN consists of representatives of each of the three shareholders on a *pro rata* basis to their equity ownership. The shareholders of SGN share a similar long-term investment outlook and are not focused solely on short-term returns. The Board of Directors is replicated for each Issuer. This separation of directors from day-to-day management of the business, together with two independent non-executive directors, contributes to the high standards of corporate governance maintained by SGN.

Answering directly to the Board of Directors of SGN and each Issuer is John Morea, Chief Executive Officer, who is supported by Chris Brook, Chief Financial Officer and an executive management team. Further details are set out in “Business Description — Management”.

SSE provides corporate support services to the Issuers, further details of which are set out in “Business Description — Description of the Issuers — Service Agreements with SSE”.

## **Issuance of Notes**

Each Issuer will apply the net proceeds from each issuance of Notes for its general corporate purposes.

## **Programme**

Although a single Programme has been established under which each Issuer may issue Notes with similar terms and conditions, Notes issued by one Issuer will be legally and economically separate from those issued by the other Issuer. Each Issuer will have no liability in respect of Notes issued by the other Issuer.

## **Key Aspects of the GT Licences**

The Issuers are regulated by the Office of Gas and Electricity Markets (“Ofgem”), which operates under the direction and governance of the Gas and Electricity Markets Authority (“GEMA”) (GEMA and Ofgem are collectively referred to in this Prospectus as the “Authority”). Each Issuer holds a GT Licence and must comply with the terms of the GT Licences together with the licensing and regulatory regime of the Gas Act.

The GT Licences create a regulatory ring-fence (which is of particular relevance to Noteholders) around the Issuers’ transportation assets by, amongst other things:

- (i) restricting the Issuers from disposing of or relinquishing operational control over their transportation assets without obtaining prior consent from the Authority;
- (ii) restricting the businesses and activities which the Issuers may perform in addition to gas transportation (save with the Authority’s prior consent and with certain exceptions);
- (iii) prohibiting cross-subsidies to or from any other business of the Issuers (or their affiliates);
- (iv) requiring that the Issuers have sufficient financial and operational resources to carry out their gas transportation business properly and efficiently and to comply with their regulatory obligations;
- (v) requiring the Issuers to take all appropriate steps to maintain investment grade credit ratings; and
- (vi) restricting the Issuers’ abilities to incur indebtedness, create security or enter into cross-default obligations.

*This overview should be read in conjunction with the Terms and Conditions of the Notes (in particular the covenants given by each Issuer) and with the detailed information set out elsewhere in this Prospectus including the sections entitled “Business Description — Regulatory Framework” which goes into more detail on the GT Licences and the associated legal and regulatory regime in which the Issuers operate and “Risk Factors-Consequences of not complying with the GT Licences”.*

In the Terms and Conditions of the Notes, each Issuer covenants for the benefit of the Note Trustee that it will comply with and operate its business in accordance with its GT Licence.

### **Price Control Regime**

Each Issuer’s allowed revenue (in terms of transportation charges) is determined by the gas distribution price controls set out in the terms of their GT Licences, the most recent of which was set by the Authority to operate between 1 April 2013 and 31 March 2021 (the “Current Control”) and is based on Ofgem’s new RIIO principles (see “Business Description — Price Control” for further details). The price control formulae are subject to periodic review by the Authority (currently every eight years).

Base allowed revenue is fixed in £m terms in the formulae and is inflated to current prices by the UK retail price index. Changes to total allowed revenue reflect performance against the total expenditure allowances awarded, total operating costs, and also take into account the symmetrical reward schemes for network incentives, such as gas leakage and customer service.

When prices are set at the beginning of each year they are based on assumptions relating to the forecast capacity requirements of customers and their demand and the level of maximum allowed revenue. As a consequence, there is inevitably a difference at the end of the year between actual revenues collected and the maximum allowed revenue calculated. The difference between the actual revenue collected and the maximum allowed revenue (adjusted for interest) is carried forward two years. This adjustment is known as the “k-factor”. The k-factor, therefore, protects gas distribution networks against the risk that revenues may be volatile intra year due to actual variables differing from those assumed when tariffs are set at the start of the year.

Revenues for some services are not regulated by the price control formulae. These include, for example, charges for certain metering services, and maintenance and emergency response services which are performed by the Issuers on behalf of third parties.

For a further description of the regulatory regime governing the Issuers’ businesses and revenues, see “Business Description — Regulatory Framework” and “Business Description — Price Control”.

## ISSUER AND PROGRAMME DESCRIPTION

*The following description does not purport to be complete and is qualified in its entirety by the remainder of this Prospectus, in particular the Terms and Conditions of the Notes. This overview should be read as an introduction to the Prospectus and any decision to invest in Notes should be based on consideration of the Prospectus as a whole, including all documents incorporated by reference. Words and expressions not defined in this description shall have the same meanings as defined in the Terms and Conditions of the Notes.*

<b>Issuers:</b>	Southern Gas Networks plc and Scotland Gas Networks plc
<b>Programme Amount:</b>	Up to £5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes Outstanding (as defined in the Trust Deed relating to the Programme dated 17 October 2014 (the “Trust Deed”)) at any one time, subject to increase in accordance with the terms of the Programme Agreement.
<b>Arranger:</b>	Barclays Bank PLC
<b>Programme Dealers:</b>	Barclays Bank PLC, CIBC World Markets plc, Lloyds Bank plc, RBC Europe Limited and The Royal Bank of Scotland plc. The Issuers may, from time to time, terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme.  References in this Prospectus to “Programme Dealers” are to the Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to all Programme Dealers and all persons appointed from time to time as a dealer in respect of one or more Tranches.
<b>Trustee:</b>	Citicorp Trustee Company Limited
<b>Principal Paying Agent:</b>	Citibank, N.A., London Branch
<b>Registrar and Transfer Agent:</b>	Citibank, N.A., London Branch
<b>Hedging Policy:</b>	Each Issuer will covenant to comply with a hedging policy, as further described in “Covenants of the Issuers” below.
<b>Method of Issue:</b>	Notes will be issued on a syndicated or non-syndicated basis. Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and/or issue price). Notes of each Series are intended to be interchangeable with all other Notes of that Series.  Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche will be set out in the final terms in the form set out in this Prospectus (the “Final Terms”) or in the case of Exempt Notes in the pricing supplement in the form set out in this Prospectus (the “Pricing Supplement”). Tranches of Notes within the same Series will be consolidated to form a single Series (having identical terms as the other Tranche(s) of the same Series, save in respect of the issue date, issue price, first payment of interest and nominal amount).
<b>Issue Price:</b>	The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.  Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

<b>Form of Notes:</b>	The Notes may be issued in bearer form (“ <b>Bearer Notes</b> ”) or in registered form (“ <b>Registered Notes</b> ”). Each Tranche of Bearer Notes will be represented on issue by a Temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than 183 days and are being issued in compliance with the D Rules (as defined in “Selling Restrictions” below), otherwise such Tranche will be represented by a Permanent Global Note. Registered Notes will be represented on issue by a Global Certificate. Registered Notes will not be exchangeable for Bearer Notes.
<b>Clearing Systems:</b>	Clearstream, Luxembourg and Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Principal Paying Agent and the relevant Dealer.
<b>Initial Delivery of Notes:</b>	On or before the issue date for each Tranche, if the relevant Global Note is an NGN, or the relevant Global Certificate is intended to be held in the NSS, the Global Note or Global Certificate, as applicable, will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not intended to be held in the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes, as applicable, will be delivered to a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be delivered to any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Principal Paying Agent, the Registrar in the case of Registered Notes, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
<b>Currencies:</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in pounds sterling, euro or U.S. dollars or any other currency agreed between the relevant Issuer and the relevant Dealers.
<b>Maturities:</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity as specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).
<b>Denomination:</b>	Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency as agreed between the relevant Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue.  Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) having a maturity of less than one year from their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue would, absent the following, otherwise constitute a contravention of Section 19 of the FSMA), will have a minimum denomination of £100,000 (or its equivalent in other currencies) or be issued in other circumstances which do not constitute a contravention by the relevant Issuer of Section 19 of the FSMA.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).
<b>Floating Rate Notes:</b>	Floating Rate Notes will bear interest determined separately for each Series as follows: <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.;</li> </ul>

	(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR as adjusted for any applicable margin; or
	(iii) on such other basis as may be agreed between the relevant Issuer and relevant Dealer(s),
	as indicated in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).
<b>Zero Coupon Notes:</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>RPI Linked Notes:</b>	Payments of principal in respect of RPI Linked Redemption Notes or of interest in respect of RPI Linked Interest Notes will be calculated as specified in “Terms and Conditions of the Notes”.
<b>Exempt Notes:</b>	The Issuer may agree with any Dealer that Exempt Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event the relevant provisions will be included in the applicable Pricing Supplement.
<b>Interest Periods and Interest Rates:</b>	The length of the interest periods for Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).
<b>Redemption Amount:</b>	With the exception of Zero Coupon Notes and RPI Linked Notes and subject to any purchase and calculation or early redemption, the Notes will be redeemed at par. Notes which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).
<b>Status of Notes:</b>	Notes will constitute unsubordinated and unsecured obligations of the relevant Issuer, as described in Condition 3 ( <i>Status of Notes</i> ). There will be no cross-default or cross-collateralisation between the obligations of Scotland GN, Southern GN and SGN.
<b>Negative Pledge:</b>	Notes will have the benefit of a negative pledge which is subject to certain exceptions in respect of “Permitted Security Interests” as described in Condition 4 ( <i>Negative Pledge</i> ).
<b>Events of Default:</b>	The events of default under the Notes are as specified in Condition 11 ( <i>Events of Default</i> ). In particular, Notes issued by each Issuer will have the benefit of a cross-default provision in relation to other Tranches of Notes issued by that Issuer as described in Condition 11(a)(iii).
<b>Rating:</b>	Tranches of Notes issued under the Programme may be rated or unrated. 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. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms (or, in the case of Exempt Notes, the Pricing Supplement). As at the date of this Prospectus, the long term unsecured, unguaranteed and unsubordinated debt obligations of each Issuer have been rated: BBB by Standard & Poor’s, Baa1 by Moody’s and BBB+ by Fitch. As of the date, of this Prospectus, each of Standard & Poor’s, Moody’s and Fitch is established in the European Union and registered under the CRA Regulation.
<b>Optional Redemption:</b>	The Final Terms (or, in the case of Exempt Notes, the Pricing Supplement) issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part), and if so the terms applicable to such redemption.
<b>Early Redemption:</b>	Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the relevant Issuer prior to maturity only for tax or index event reasons. See Condition 7 ( <i>Redemption, Purchase and Options</i> ).

<b>Withholding Tax:</b>	All payments of principal and interest in respect of Notes will be made free and clear of withholding taxes of the United Kingdom, subject to certain exceptions (including the International Capital Market Association Standard EU Exceptions), all as described in Condition 9 ( <i>Taxation</i> ).
<b>Governing Law:</b>	The Notes and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
<b>Listing and admission to trading:</b>	<p>Application has been made to the UK Listing Authority for Notes (other than Exempt Notes) issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.</p> <p>Notes for which no prospectus is required to be published under the Prospectus Directive (Exempt Notes) may also be issued under the Programme.</p>
<b>Selling Restrictions:</b>	<p>For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, France, Italy, Japan and Ireland, see "Subscription and Sale".</p> <p>Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.</p> <p>The Bearer Notes will be issued in compliance with U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (the "D Rules") unless the Bearer Notes are issued other than in compliance with the D Rules but generally in circumstances in which Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA"), which circumstances will be referred to in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) as a transaction to which TEFRA is not applicable.</p>
<b>Further Issues:</b>	Each Issuer may from time to time without the consent of the relevant Noteholders or Couponholders create and issue further Notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in the Terms and Conditions of such Notes to "Issue Date" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single Series with such Notes, and references in the Terms and Conditions to "Notes" shall be construed accordingly provided always that the Regulated Asset Ratio of the relevant Issuer (calculated on a <i>pro forma</i> basis following the issuance of such further Notes) would not be greater than 0.775:1.
<b>Covenants of the Issuers:</b>	<p>In connection with the Programme, for so long as any Note remains Outstanding (as defined in the Trust Deed) each Issuer will severally covenant in favour of the Trustee:</p> <ol style="list-style-type: none"> <li>(a) not to change the nature of its business if such change in business is not in compliance with its obligations under its GT Licence;</li> <li>(b) to operate its business in accordance with its GT Licence and not to transfer its GT Licence;</li> <li>(c) to provide to the Trustee within 60 days following 31 March and 30 September in each year a certificate signed by two directors stating its Regulated Asset Ratio;</li> <li>(d) for at least two days of each fiscal year, repay in full any Working Capital Facility and will provide to the Trustee within 60 days following the end of the fiscal year a certificate in respect of that fiscal year, signed by either the chief financial officer or chief operating officer (or an equivalent officer replacing either of them) of the Issuer verifying that all drawdowns under any Working Capital Facility during the relevant fiscal year were used during the relevant fiscal year for the purposes described in the definition of "Working Capital Facility" and not for any other</li> </ol>

purpose;

- (e) not, directly or indirectly, to make any Distribution (as defined in the Terms and Conditions of the Notes) unless (i) the certification referred to in paragraph (c) above confirms that the Regulated Asset Ratio is not greater than 0.775:1 and (ii) the Regulated Asset Ratio following the payment of such Distribution would not be greater than 0.775:1 (and will not put in place alternative arrangements, the purpose of which is intended to circumvent any such limitation on the limitation on the payment of Distributions);
- (f) not to incur further Financial Indebtedness (as defined in Condition 12 (*Covenants*)) if the Regulated Asset Ratio would be greater than 0.775:1 (adjusted on a *pro forma* basis to take account of the proposed incurrence of such further Financial Indebtedness);
- (g) to comply with a hedging policy containing the following provisions (as more particularly described in the Trust Deed):
  - (i) all non-sterling interest bearing debt will be fully hedged into sterling (or the then currency of the United Kingdom of Great Britain and Northern Ireland); and
  - (ii) a minimum of 75 per cent. of debt of each Issuer will be (A) fixed rate, (B) index-linked or (C) hedged so that the interest exposure of the relevant Issuer is either fixed rate or index-linked;
- (h) to give notice to the Trustee of (i) late payment under the Notes; (ii) the occurrence of a Restructuring Event; (iii) the occurrence of a Rating Downgrade; and (iv) the occurrence of an Event of Default; and
- (i) to use its reasonable endeavours to maintain an investment grade rating in respect of its long-term unsecured, unguaranteed and unsubordinated debt obligations.

## **RISK FACTORS**

*The following is a summary of certain aspects of the activities of each Issuer and of the Programme documentation about which prospective Noteholders should be aware. Each Issuer believes that the factors described below represent the principal risks inherent in investing Notes issued under the Programme. The occurrence of any of the events described below could have a material adverse impact on the business, financial condition or results of operations of each Issuer and could affect the ability of each Issuer to fulfil its obligations under the Notes. This summary is not intended to be exhaustive and prospective Noteholders should read the detailed information set out elsewhere in this Prospectus prior to making any investment decision. Further, any prospective Noteholder should take its own legal, financial, accounting, tax and other relevant advice as to the structure and viability of its investment.*

### **Risks relating to the Issuers**

#### ***Regulatory Environment, Revenue and Costs***

The gas industry is subject to extensive legal and regulatory obligations, controls and standards, and the Issuers must comply with all of these (see “Business Description — Regulatory Framework”).

The application and possible change of these laws, regulations and regulatory standards and the policies of the regulators, the Authority and the Health and Safety Executive (“HSE”) could have an adverse effect on the operations and financial standing of each Issuer. The Authority has a statutory duty to protect interests of customers where appropriate by promoting competition and in doing so, ensuring that licence holders are able to finance their statutory activities. There can be no assurance that the Current Control or future price controls will permit the generation of sufficient revenues to enable each Issuer to meet its payment obligations under the Notes. There can also be no assurance that net operating revenues generated by each Issuer will be sufficient to meet such payment obligations.

#### ***Other Modifications to the GT Licences***

In addition to setting price controls, the Authority also has formal powers to propose modifications to each GT Licence. Such modifications could have a significant financial effect on the business of each Issuer. Although the Issuers are not aware of any proposed modification to their GT Licences that could have a material adverse effect on their business activity, there can be no assurance that these will not take place in the future.

#### ***Consequences of Not Complying with the GT Licences***

The Authority has the power to grant enforcement orders and levy fines of up to 10 per cent. of turnover of the relevant Issuer for any breach of its GT Licence and certain provisions under the Gas Act.

In addition, the Authority can terminate a GT Licence in certain circumstances by giving not fewer than 30 days’ written notice. Such circumstances include:

- if the Issuer agrees in writing that the GT Licence should be revoked;
- late payment of GT Licence fees;
- failure to comply with an enforcement order;
- failure to pay a fine imposed by the Authority for non-compliance with the GT Licence; and
- failure to comply with orders made under certain sections of the Competition Act 1998 and the Enterprise Act 2002.

Furthermore, the Authority may revoke an Issuer’s GT Licence on twenty-four hours’ notice in the event of insolvency.

Unless terminated in the circumstances mentioned above, the GT Licences continue indefinitely until revoked by the Authority following no fewer than 10 years’ written notice. Each Issuer is confident that it



has in place policies, systems and processes to ensure compliance with the GT Licences and relevant legislation. Furthermore, each Issuer is not currently subject to any formal investigation by the Authority in relation to enforcement matters.

### ***Special Administration Regime***

The ability of each Issuer to grant security over its transportation assets (as defined in their GT Licence) and the enforcement of such security is restricted by the provisions of the GT Licences. Consent can be sought from the Authority to the granting of security over such assets but each Issuer understands that consent is unlikely to be given. Each Issuer has undertaken not to grant security over certain assets pursuant to the negative pledge (as described in Condition 4 (*Negative Pledge*)). Subject to this negative pledge, security can be granted over certain non-transportation assets. There are, however, legal restrictions which affect the enforcement of any security granted over each Issuer's assets and the petitioning for the winding up of each Issuer. One key restriction is the introduction of a special administration regime for protected energy companies (including gas transporters such as the Issuers) under the Energy Act 2004 (as amended) (the "Energy Act").

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 either of the Issuers are unable, or likely to be unable, to pay their debts or if it would be just and equitable to wind up the affected Issuer on the grounds of public interest.

An energy administrator has a different objective to other insolvency practitioners. His objective would be to ensure that the relevant Issuer's system is and is continued to be maintained and developed as an efficient and economical system and that the order can be discharged by rescuing the relevant Issuer 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. There can be no assurance 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 Issuer would recover as much as they would under other forms of insolvency. The energy administrator must exercise and perform his powers and duties in the manner which, so far as it is consistent with the objectives of energy administration to do so, best protects the interests of the creditors of the relevant Issuer as a whole and subject to those interests, the interests of the members of the relevant Issuer as a whole.

### ***Health and Safety Executive Regulation***

The HSE is responsible for regulating safety matters in the UK, including the operation of gas transportation infrastructure. There is a risk that the operating and capital costs incurred by the Issuers in order to satisfy the safety requirements of the HSE are not fully recoverable under the Current Control or future price controls. However, Ofgem has put in place provision for a mid-period review of the Current Control in 2017 where updates to HSE policy can be considered. In addition, prior to undertaking any change to the operations of the Issuers, the Issuers' management team must ensure that the operations after any such change are at least as safe as the operations prior to such change and where considered material in the context of the gas transportation infrastructure, the changes are accepted by the HSE.

### ***Environmental Policy and Management***

The historical manufacture of gas from coal and oil has resulted in the contamination of some of the sites from which the Issuers currently operate. Such sites may also have a complex history of potentially contaminative use dating back to the nineteenth century. As part of the Acquisitions, each Issuer has taken on full responsibility for the historical and ongoing environmental condition of its sites. This includes assuming responsibility for the ongoing management of contamination issues and liability for any claims or remediation requirements that might arise in relation to the environmental condition of the sites. The costs involved in these activities and the liability which may arise may have an adverse effect on the Issuers' business, financial condition or results of operations. It should be noted that as part of the Issuers' Current Control, funding has been provided for statutory remediation costs.

### ***Major projects and capital expenditure***

Failure in the design planning and execution of major projects, including non-engineering projects, could

result in the expected operational and financial benefits being either delayed or not realised, project overspends, functionality or specifications being compromised, and contractual disputes. The deployment and updating of each Issuer's major projects governance framework is designed to ensure projects are governed, developed, approved and executed in an effective manner.

#### ***Asset management systems***

Failure in the design or implementation of each Issuer's asset management systems, including health, physical security and integrity, may result in a major incident leading to a loss of life, an adverse impact on the environment, loss of assets, prosecution under relevant legislation, and failure to meet the relevant Issuer's licence conditions. The gas control centre oversees a process of asset integrity and risk based management. Regular emergency exercises and testing are conducted at key sites. Capital spending and maintenance programmes are maintained and the Risk Committee and Engineering and Safety Committee provide oversight and guidance.

#### ***Crisis management***

Failure in the design or implementation of crisis management systems may result in an inability to deal with a major crisis, reputational damage, and regulatory enforcement action. Each Issuer has business continuity plans in place which are reviewed continually. Regular test exercises are undertaken. The Issuers are also listed under the utilities fuel scheme as part of the national emergency fuel plan.

#### ***RIO***

Ofgem has issued a new regulatory framework for the price control period which commenced in April 2013. This current price control period will be for eight years and focuses on innovation, incentives and outputs. It is anticipated that a second regulatory period based on the continuation of output driven revenue will continue for a further eight years from 2021 to 2029. All references to "Allowances", "Final Proposals" and "Licences" in this Prospectus refer to those applicable to the current regulatory period, 2013 to 2021.

#### ***Uncertainty Mechanisms***

For a limited number of business activities Ofgem recognised that the level of costs or workloads expected during RIO-GD1 remained uncertain at the point of determining allowances. To mitigate this Ofgem put in place mechanisms for the Issuers to recover efficient costs in such areas through a series of "re-openers". These allow each of the Issuers to submit a request for additional revenue to Ofgem when cumulative expenditure in a business activity has exceeded, or with reasonable certainty is forecast to exceed, a materiality threshold of one per cent. of average annual base revenue, post application of the efficiency incentive rate. Ofgem will test the efficiency of the expenditure incurred using information provided by the relevant Issuer and by benchmarking against other networks and industry comparators. Following consultation, Ofgem will determine the level of efficient costs to be recovered by the relevant Issuer through allowed revenues.

#### **Risks relating to Notes**

##### ***Exchange Rate Risks and Exchange Controls***

The principal of or any interest on Notes may be payable in, or determined by reference or indexed to, one or more Specified Currencies (including exchange rates and swap indices between currencies or currency units). For Noteholders whose financial activities are denominated principally in a currency or currency unit (the "Noteholder's Currency") other than the Specified Currency in which the related Notes are denominated, or where principal or interest in respect of Notes is payable by reference to the value of one or more Specified Currencies other than by reference solely to the Noteholder's Currency, an investment in such Notes entails significant risks that are not associated with a similar investment in a Note denominated and payable in such Noteholder's Currency.

Such risks include, without limitation, the possibility of significant changes in the rate of exchange between the applicable Specified Currency and the Noteholder's Currency and the possibility of the imposition or modification of exchange controls by authorities with jurisdiction over such Specified Currency or the

Noteholder's Currency. Such risks generally depend on a number of factors, including financial, economic and political events over which each of the Issuers has no control. In addition, if the formula used to determine the amount of principal or interest payable with respect to a Note contains a multiple or leverage factor, the effect of any change in the applicable Specified Currency, index or formula will be magnified.

Government or monetary authorities have imposed from time to time, and may in the future impose, exchange controls that could affect exchange rates as well as the availability of the Specified Currency in which a Note is payable at the time of payment of the principal or interest in respect of such Note.

### ***Liquidity Risks***

Notes may not have an established trading market when issued. There can be no assurance of a secondary market for Notes or the continued liquidity of such market if one develops. The secondary market for Notes will be affected by a number of factors independent of the creditworthiness of the relevant Issuer and the value of any applicable index or indices, which may include the complexity and volatility of such index or indices, the method of calculating the principal or any interest to be paid in respect of such Notes, the time remaining to the maturity of such Notes, the outstanding amount of such Notes, any redemption features of such Notes, the amount of other securities linked to such index or indices and the level, direction and volatility of market interest rates generally. Such factors also will affect the market value of Notes.

In addition, certain Notes may be designed for specific investment objectives or strategies and, therefore, may have a more limited secondary market and experience more price volatility than conventional debt securities. Noteholders may not be able to sell Notes readily or at prices that will enable Noteholders to realise their anticipated yield. No investor should purchase Notes unless such investor understands and is able to bear the risk that certain Notes may not be readily saleable, that the value of Notes will fluctuate over time and that such fluctuations may be significant.

The prices at which Zero Coupon Notes, as well as other instruments issued at a substantial discount from their principal amount payable at maturity, trade in the secondary market tend to fluctuate more in relation to general changes in interest rates than do such prices for conventional interest-bearing securities of comparable maturities.

Investors whose investment activities are subject to legal investment laws and regulations or to review or regulation by certain authorities may be subject to restrictions on investments in certain types of debt securities. Investors should review and consider such restrictions prior to investing in Notes.

### ***Withholding Tax under the Notes***

In the event that withholding taxes are imposed by tax authorities in the United Kingdom in respect of payments due under the Notes, the relevant Issuer will (subject to certain exceptions described in Condition 9 (*Taxation*)) pay such additional amounts as will result (after such deduction or withholding) in receipt by the holders of Notes or Coupons of the amounts which would otherwise have been receivable (in the absence of such deduction or withholding). In addition, in certain circumstances, as described in Condition 7(c) (*Redemption for Tax Reasons*), each Issuer will have the option (but not the obligation):

- (i) to arrange for the substitution of a company incorporated in an alternative jurisdiction as principal debtor under the Notes (subject to certain conditions); and, failing this,
- (ii) to redeem all outstanding notes of the relevant series in full at par (as adjusted for indexation in accordance with Condition 6 (*RPI Linked Notes*) (if applicable)) plus, unless otherwise specified, accrued interest.

### ***Change of Law***

The structure of the Programme and, *inter alios*, the issue of Notes and ratings assigned to Notes are based on law (including tax law) and administrative practice in effect at the date of this Prospectus, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Prospectus which change might impact on Notes and the expected payments of interest and repayment of principal.

### ***Ratings of the Notes***

The ratings anticipated to be assigned by the credit rating agencies to the Notes reflect only the views of the credit rating agencies and in assigning the ratings the credit rating agencies take into consideration the credit quality of the relevant Issuer and structural features and other aspects of the transaction.

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 each Issuer. In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the Final Terms (or, in the case of Exempt Notes, the Pricing Supplement).

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

### ***Risks Related to the Structure of a Particular Issue of Notes***

#### ***Notes Subject to Optional Redemption by the Issuers***

An optional redemption feature of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The relevant Issuer may be expected to redeem Notes when their cost of borrowing is lower than the interest rate on Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest range on Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### ***RPI Linked Notes***

The Issuers may issue Notes with principal or interest determined by reference to the United Kingdom General Index of Retail Prices (for all items) as published by the Office for National Statistics (the "RPI"). RPI may go down as well as up. Fluctuations in RPI may not correlate to changes in interest rates, currencies or other indices. Where Notes in respect of which the amount of interest payable is subject to adjustment by reference to movements in RPI are issued, a decrease in RPI over the reference period will reduce the amount of interest payable in respect of such Notes. The timing of changes in the RPI may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the RPI, the greater the effect on yield. In a deflationary environment, the annual interest received may be lower than the amount specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).

Where the amount payable upon redemption of the Notes is subject to adjustment by reference to movements in RPI, a decrease in RPI over the reference period may reduce the amount to be repaid upon redemption of the Notes to less than the nominal amount of the Notes, unless the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement) specifies a minimum redemption amount which is equal to or higher than the nominal amount of the Notes. Investors may lose up to the entire value of their investment and the redemption amount payable may be less than the initial purchase

price or could be as low as zero.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any RPI Linked Notes. Accordingly, prospective investors should consult their own financial and legal advisers about the risks entailed by an investment in any RPI Linked Notes and the suitability of such Notes in light of their particular circumstances.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

#### *Notes Issued at a Substantial Discount or Premium*

The market values of Notes issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing Notes. Generally, the longer the remaining term of Notes, the greater the price volatility as compared to conventional interest-bearing Notes with comparable maturities.

#### *Bearer Notes in NGN form and global registered Notes held under the NSS may not satisfy Eurosystem eligibility criteria*

Bearer Notes in new global note (NGN) form and global registered Notes held under the new safekeeping structure (NSS) allow for the possibility of Notes being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the euro (the "Eurosystem") and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However, in any particular case, such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether the Notes meet such Eurosystem eligibility criteria.

#### *Denominations*

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

#### *European Union Savings Tax Directive*

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new

requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also apply a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding tax in relation to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will then commence automatic information exchange under the Directive. The transitional period will end after agreement on exchange of information is reached between the EU and certain non-EU states.

A number of non-EU countries and territories, including Switzerland, have adopted equivalent measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the relevant Issuer nor any Paying Agent (as defined in the “Terms and Conditions of the Notes”) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. For so long as any Note issued under the Programme is outstanding, the Issuers are required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive (see Condition 8(e) (*Appointment of Agents*)).

#### **FATCA**

Sections 1471 through 1474 (including any agreements under section 1471(b)) of the U.S. Internal Revenue Code of 1986, certain intergovernmental agreements relating thereto, or laws implementing any of the foregoing (collectively “FATCA”) may impose withholding tax on payments made to (x) custodians or intermediaries in the payment chain leading to the ultimate investor that are not entitled (or fail to establish eligibility) to receive payments free of withholding under FATCA and (y) an ultimate investor that either fails to provide any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding or that is a “foreign financial institution” that is not entitled to receive payments free of withholding under FATCA, if, for purposes of FATCA, (i) the relevant Issuer is considered a “foreign financial institution”, (ii) the relevant Notes are treated, for U.S. federal tax purposes, either as equity instruments or as issued or materially modified (which may result from a substitution) after the date that is six months after the publication of final regulations defining the term “foreign passthru payments” and (iii) payments on the Notes are considered “foreign passthru payments”.

Each of the Issuers does not believe payments on the Notes will be subject to FATCA because (i) it does not believe it is a foreign financial institution for the purposes of FATCA and (ii) it is unlikely that any payments on the Notes will be considered foreign passthru payments under current business plans. However, FATCA is subject to further development and no assurance can be made that FATCA will not apply to the Notes. If FATCA were applicable to the Notes, no withholding would be due until 1 January 2017, at the earliest. If any tax were withheld in respect of FATCA, no additional amounts will be paid in respect of such withholding.

## TERMS AND CONDITIONS OF THE NOTES

Any reference in this section to “applicable Final Terms” shall be deemed to include a reference to “applicable Pricing Supplement” where relevant.

*The following is the text of the Terms and Conditions of the Notes that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms or relevant Pricing Supplement in the case of Exempt Notes, shall be incorporated by reference into each Global Note representing Notes in bearer form, Notes in definitive form (if any) issued in exchange for the Global Note(s) representing Notes in bearer form, each Global Certificate representing Notes in registered form and each Individual Certificate representing Notes in registered form (as long as such incorporation by reference is permitted by the rules of the relevant stock exchange and is agreed by the Issuer). If such incorporation by reference is not so permitted and agreed, the full text of these Terms and Conditions together with the relevant provisions of Part A of the relevant Final Terms or Pricing Supplement shall be endorsed on such Bearer Notes or such Registered Notes. All capitalised terms that are not defined in these Terms and Conditions will have the meanings given to them in Part A of the relevant Final Terms or Pricing Supplement.*

Southern Gas Networks plc and Scotland Gas Networks plc (each, an “Issuer” and together, the “Issuers”) have established a euro medium term note programme (the “Programme”) for the issuance of up to £5,000,000,000 (or its equivalent in other currencies) notes (the “Notes”). Notes issued under the Programme on a particular date (each such date an “Issue Date”) comprise a series (a “Series”), and each Series comprises one or more tranches of Notes (each a “Tranche”).

Notes are constituted by a trust deed dated 17 October 2014 (the “Trust Deed”) between *inter alios*, the Issuers and Citicorp Trustee Company Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Notes have the benefit (to the extent applicable) of an agency agreement dated 17 October 2014 (the “Agency Agreement”) entered into between the Issuers, the Trustee and Citibank, N.A., London Branch as principal paying agent and the other agents named in it. The persons specified in the Agency Agreement as the principal paying agent, the paying agents, the registrar and the transfer agents or appointed, unless specified otherwise in the applicable Final Terms, as calculation agent in the Agency Agreement and, in each case, any successor to such person in such capacity are referred to below respectively as the “Principal Paying Agent”, the “Paying Agents” (which expression shall, where applicable, include the Principal Paying Agent), the “Registrar”, the “Transfer Agent” and the “Calculation Agent” respectively. Notes may also have the benefit of a calculation agency agreement (substantially in the form of Schedule 1 to the Agency Agreement, the “Calculation Agency Agreement”) where an Issuer appoints a person (other than the Principal Paying Agent) as calculation agent and such calculation agent shall be specified in the applicable Final Terms, otherwise the calculation agent shall be the Principal Paying Agent (and in either such case, the “Calculation Agent”).

On 17 October 2014 the Issuers entered into a programme agreement (the “Programme Agreement”) with the dealers named therein (the “Dealers”) in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Tranche of Notes to be issued by an Issuer, and pursuant to which the Dealers have agreed to subscribe the relevant Tranche of Notes.

The Noteholders, the holders of the interest coupons (the “Coupons”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “Talons”) (the “Couponholders”) are entitled to the benefit of, and are deemed to have notice of, all of the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Copies of the Trust Deed, the Agency Agreement, the Programme Agreement and any Calculation Agency Agreement (together the “Transaction Documents”) are available for inspection during usual business hours at the specified offices of the Trustee and each of the Paying Agents, the Registrar and the Transfer Agents.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions or, if this Note is a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered

in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (an “Exempt Note”), the final terms (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. Any reference in these Terms and Conditions to applicable Final Terms shall be deemed to include a reference to applicable Pricing Supplement where relevant. The expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive) to the extent implemented in the relevant Member State of the European Economic Area and includes any relevant implementing measure in the relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## **1. Form, Denomination and Title**

Notes are issued in bearer form (“Bearer Notes”) or registered form (“Registered Notes”) in each case in the denomination(s) set out in the applicable Final Terms (“Specified Denomination”).

Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency on the relevant Issue Date as agreed between the Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue. Subject thereto, Notes will be issued in such denominations as may be specified in the applicable Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Notes of any Tranche may be zero coupon notes (“Zero Coupon Notes”), fixed rate notes (“Fixed Rate Notes”), floating rate notes (“Floating Rate Notes”), or RPI linked notes (“RPI Linked Notes”), depending on the method of calculating interest payable in respect of such Notes and may be denominated in sterling, euro, U.S. dollars or in other currencies subject to compliance with applicable law.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached thereto save in the case of Zero Coupon Notes (in which case references to interest (other than in relation to interest due after the specified Maturity Date), Coupons and Talons in these Terms and Conditions are not applicable).

Registered Notes are represented by registered certificates (“Certificates”) and, save as provided in Condition 2(c) (*Delivery of New Certificates*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “Register”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may 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 on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Terms and Conditions, “Noteholder” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be) and “holder” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) save that, in respect of Notes of any Series, for as long as such Bearer Notes or any part thereof are represented by a global Note (“Global Note”) or such Registered Notes are represented by a global certificate (“Global Certificate”), held on behalf of Euroclear Bank SA/NV (“Euroclear”) and/or of Clearstream Banking, *société anonyme* (“Clearstream Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of Notes of such Series (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer as the holder of



such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, except in relation to Bearer Notes in new global note (“NGN”) form or Registered Notes intended to be held in a manner which would allow Eurosystem eligibility (being the new safekeeping structure (“NSS”) and hereinafter referred to as “held under the NSS”), be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Final Terms.

Unless otherwise specified in these Terms and Conditions or the applicable Final Terms, capitalised terms have the meanings given to them in these Terms and Conditions, the absence of any such meaning indicating that such term is not applicable to the Notes.

## **2. Transfers of Registered Notes**

(a) *Transfer of Registered Notes:* One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) *Exercise of Options or Partial Redemption in Respect of Registered Notes:* In the case of an exercise of the Issuer’s Call Option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(c) *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 2(a) (*Transfer of Registered Notes*) or Condition 2(b) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) *Exchange at the Expense of Transferor Noteholder:* Registration of Notes on exchange or transfer will be effected at the expense of the transferor Noteholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment by the relevant Noteholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer

Agent may require).

(e) *Closed Periods*: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(d) (*Redemption at the Option of the Issuer (Issuer Maturity Call)*) or Condition 7(e) (*Redemption at the Option of the Issuer (Issuer Call) and Partial Redemption*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

### **3. Status of Notes, Talons and Coupons**

Notes and Talons and Coupons constitute direct, general, unconditional and 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 Notes which it issues and the related Talons and Coupons shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future. Save as contemplated by Condition 4 (*Negative Pledge*), Notes and the related Talons and Coupons will not be secured by any of the property or assets of the Issuer or any of its subsidiaries. Thus, by owning a Note, Noteholders are one of the Issuer's unsecured creditors.

### **4. Negative Pledge**

So long as any Notes remain Outstanding (as defined in the Trust Deed), the Issuer will ensure that no Negative Pledge Indebtedness (as defined below) of the Issuer (or any subsidiary of such Issuer), and no guarantee by the Issuer (or any subsidiary of the Issuer) of any Negative Pledge Indebtedness of any person, will be secured by a Security Interest upon, or with respect to, any of the present or future business undertakings, assets or revenues of the Issuer, or any subsidiary of such Issuer, save for any Permitted Security Interest, unless:

- (a) all amounts payable by the Issuer under Notes and the related Talons and Coupons and the Trust Deed are secured equally and rateably with such Negative Pledge Indebtedness by the same Security Interest; or
- (b) another Security Interest or other arrangement is entered into which is either (i) deemed by the Trustee in its absolute discretion not to be materially less beneficial to Noteholders or (ii) has been approved by an Extraordinary Resolution of the holders of each Tranche of Notes,

provided that the provisions of paragraphs (a) and (b) above will not apply and the Issuer shall have the right to grant Security Interests in respect of Negative Pledge Indebtedness without the obligation to provide equivalent Security Interests to the Trustee where such Negative Pledge Indebtedness does not, in aggregate, exceed 5 per cent. of the Adjusted Regulated Asset Value.

For the purposes of this Condition 4:

“*Adjusted Regulated Asset Value*” has the meaning given in Condition 12 (*Covenants*).

“*Negative Pledge Indebtedness*” shall mean any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of:

- (a) moneys borrowed; or
- (b) any notes, bonds, debentures, debenture stock, loan stock or other debt securities (evidencing moneys borrowed or raised) offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part or for a consideration other than cash; or
- (c) the amount of any liability in respect of any lease or hire purchase contract which would be treated in accordance with accounting standards applicable to the Issuer as a finance lease; or

- (d) any amount raised by the issue of redeemable shares; or
- (e) the amount of any liability in respect of any guarantee or indemnity given in respect of any of the items referred to in paragraphs (a) to (d) above,

but excluding, for the avoidance of doubt, any present or future, actual or contingent liabilities arising in connection with any derivative or hedging transactions (including any termination payment due in respect of such transactions).

*“Permitted Security Interest”* means:

- (a) any lien or right of set-off arising in the normal course of trading or by operation of law;
- (b) any Security Interest arising by operation of law (including but not limited to, mechanics’ or repairmen’s liens, rights of way, easements or similar rights in land) or which the Issuer is required to give under any applicable law or the terms of any governmental consent;
- (c) any conditional sale or title retention arising under or pursuant to any contract for the purchase of goods in the normal course of trading;
- (d) any right of set-off, netting or combination of account agreed by Scotia Gas Networks Limited (“SGN”) and/or the Issuer with its bankers in the ordinary course of the cash management arrangements of SGN and its subsidiaries (the “Group”);
- (e) any Security Interest given in the ordinary course of business to any bank or lender to secure indebtedness under any loan facility falling within the definition of Working Capital Facility;
- (f) any Security Interest given to any bank or lender to secure indebtedness under any loan facility provided that the aggregate principal amount of all such loan facilities does not exceed the aggregate of all additions to the Adjusted Regulated Asset Value made during the period of the last two completed audited annual financial periods immediately preceding the date on which such Security Interest is to be granted;
- (g) any Limited Recourse Security Interest given over or in respect of a Non-Regulated Asset;
- (h) any Security Interest securing indebtedness of any subsidiary of the Issuer existing at the time that such subsidiary is acquired by the Issuer; or
- (i) any Security Interest securing indebtedness of the Issuer existing at the Initial Issue Date (being 21 October 2005).

*“GT Licence”* means the gas transporter’s licence granted by the Gas and Electricity Markets Authority to the Issuer under the Gas Act 1986 (as amended by the Gas Act 1995, the Utilities Act 2000 and the Energy Act 2004).

*“Licensed Business”* means the business and other activities required to be undertaken by the holder of a GT Licence.

*“Limited Recourse Security Interest”* means a Security Interest where the party with the benefit of the Security Interest over such asset only has recourse to such asset and does not have any recourse whatsoever to any other assets, property or revenues of the Issuer or any recourse to the Issuer generally (whether upon a contingency or otherwise).

*“Non-Regulated Asset”* means an asset which satisfies the following criteria:

- (a) the asset is not a “transportation asset” of the Issuer (as such term is defined in the Issuer’s GT Licence);
- (b) the value of such asset is not included in the calculation of Adjusted Regulated Asset Value; and

- (c) such asset does not form part of the property, receivables, revenues (for the avoidance of doubt including revenues from insurance claims and the proceeds of litigation), rights or claims relating to or arising from the business and other activities that are material to the exploitation of an asset which is (i) a “transportation asset” (as referred to above) or (ii) an asset which is included in the calculation of the Adjusted Regulated Asset Value.

“*Security Interest*” means any lien, mortgage, pledge, charge, hypothecation or other encumbrance or arrangement having the effect of giving security.

## **5. Interest and other Calculations**

(a) *Interest on Fixed Rate Notes:* Each Fixed Rate Note bears interest from the Interest Commencement Date (as defined in Condition 5(j) (*Definitions*)) at the rate per annum (expressed as a percentage) equal to the Rate of Interest (as defined in Condition 5(j) (*Definitions*)), such interest being payable in arrear on each Interest Payment Date specified.

Except in the case of Notes in definitive form where a Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note or Global Certificate, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note or Global Certificate; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(b) *Interest on Floating Rate Notes:*

- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Terms and Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:
  - (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (X) such date shall be brought forward to the immediately preceding Business Day and (Y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;
  - (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;
  - (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which

event such date shall be brought forward to the immediately preceding Business Day; or

- (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Period shall be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified.
- (A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated) the Margin specified (if any). For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified;
- (y) the Designated Maturity is a period specified; and
- (z) the relevant Reset Date is the first day of that Interest Period unless otherwise specified.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

- (B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period shall be determined at or about the Relevant Time on the Interest Determination Date (as defined in Condition 5(j) (*Definitions*)) in respect of such Interest Period in accordance with the following:

- (i) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Relevant Rate (as defined in Condition 5(j) (*Definitions*));
- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Relevant Rates (as defined below) which appear on the Page as of the Relevant Time (as defined in Condition 5(j) (*Definitions*)) on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Calculation Agent will:
  - (x) request the principal Relevant Financial Centre office (as defined in Condition 5(j) (*Definitions*)) of each of the Reference Banks (as defined in Condition 5(j) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre Interbank Market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and
  - (y) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested in sub-paragraph (iii) above, the Calculation Agent will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Calculation Agent quoted by the Reference Banks at

approximately 11.00 a.m. (local time in the Relevant Financial Centre) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 5(j) (*Definitions*)),

and the Interest Rate for such Interest Period shall be the sum of the Margin specified and the rate or (as the case may be) the arithmetic mean so determined. However, if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Interest Rate applicable to Notes during such Interest Period will be the sum of the Margin specified and the rate or (as the case may be) the arithmetic mean last determined in relation to Notes in respect of a preceding Interest Period.

(c) *Linear Interpolation.* Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“*Designated Maturity*” means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(d) *RPI Linked Notes:* Payments of principal on, and the interest payable in respect of RPI Linked Notes will be subject to adjustment for indexation and to the extent set out in Condition 6(b) (*Application of the Index Ratio*). The Rate of Interest in respect of RPI Linked Notes for each Interest Period shall be determined in the manner specified in Condition 6 (*RPI Linked Notes*).

(e) *Zero Coupon Notes:* Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 7(b)(i)(B) (*Early Redemption — Zero Coupon Notes*)).

(f) *Accrual of Interest:* Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9 (*Taxation*)).

(g) *Maximum/Minimum Rates of Interest, Maximum/Minimum Redemption Amounts and Rounding:*

- (i) if any Maximum or Minimum Rate of Interest or Minimum/Maximum Redemption Amount is specified in the applicable Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be; and
- (ii) for the purposes of any calculations required pursuant to these Terms and Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(h) *Calculations:* The Interest Amount (as defined in Condition 5(j) (*Definitions*)) payable on the Floating

Rate Notes or RPI Linked Interest Notes for the relevant Interest Period shall be calculated by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes or RPI Linked Interest Notes which are represented by a Global Note or Global Certificate, the aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate; or
- (B) in the case of Floating Rate Notes or RPI Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an RPI Linked Interest Note in definitive form comprises more than one Calculation Amount, the Interest Amount payable in respect of such Note shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(i) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:* As soon as practicable after the Relevant Time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of Notes for the relevant Interest Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount (each as defined in Condition 5(j) (*Definitions*)), obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Principal Paying Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of Notes that is to make a further calculation upon receipt of such information and, if Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If Notes become due and payable under Condition 11 (*Events of Default*) the accrued interest and the Rate of Interest payable in respect of Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) *Definitions:* In these Terms and Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“*Business Day*” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “TARGET Business Day”); and/or

- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “Calculation Period”):

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified, the actual number of days in the Calculation Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified, the actual number of days in the Calculation Period divided by 360;
- (v) if “30/360”, “360/360” or “Note Basis” is specified, the number of days in the Calculation Period divided 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30; and

- (vi) “30E/360” or “Eurobond Basis” is specified, the number of days in the Calculation period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls:



“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (vii) if “30E/360 (ISDA)” is specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls:

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day of the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31 and in which case D<sub>2</sub> will be 30; and

- (viii) if “Actual/Actual (ICMA)” is specified,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

“*Determination Period*” means the period from (and including) a Determination Date in any year to (but excluding) the next Determination Date.

“*Determination Date*” means the date specified as such in the applicable Final Terms or, if none is so specified, the Interest Payment Date.

“*Early Redemption Amount*” means the amount specified as such in the applicable Final Terms.

“*Effective Date*” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such or, if none is so specified, the first day of the Interest Period to which such Interest Determination Date relates.

“*Euro-zone*” means the region comprising Member States of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“*Final Redemption Amount*” means the amount specified as such in the applicable Final Terms.

“*Interest Amount*” means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

“*Interest Commencement Date*” means the Issue Date or such other date as may be specified in the applicable Final Terms.

“*Interest Determination Date*” means, with respect to a Rate of Interest and Interest Period, the date specified as such or, if none is so specified, (i) the first day of such Interest Period if the Specified Currency is sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Specified Currency is euro.

“*Interest Period*” means the period beginning on (and including) the Interest Commencement Date 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.

“*Interest Period Date*” means each Interest Payment Date unless otherwise specified.

“*ISDA Definitions*” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified.

“*Maturity Date*” means the maturity date specified in the applicable Final Terms.

“*Optional Redemption Amount*” means the amount specified as such in the applicable Final Terms.

“*Page*” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“*Principal Amount Outstanding*” means in relation to a Note or Tranche, the original face value thereof less any repayment of principal made to the Noteholders in respect of such

Note or Tranche, as adjusted for indexation in accordance with Condition 6 (*RPI Linked Notes*) (if applicable).

“*Rate of Interest*” means the rate of interest payable from time to time in respect of the relevant Note and that is either specified in, or calculated in accordance with the provisions of, the applicable Final Terms.

“*Reference Banks*” means the institutions specified as such in the applicable Final Terms or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Relevant Rate (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“*Relevant Financial Centre*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the applicable Final Terms or, if none is so specified, the financial centre with which the Relevant Rate is most closely connected (which in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“*Relevant Rate*” means the offered rate for a Representative Amount of the Specified Currency for a period (if applicable) equal to the Specified Duration (or such other rate as shall be specified in the applicable Final Terms).

“*Relevant Time*” means the time specified as such in the applicable Final Terms or, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the applicable Final Terms or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “local time” means with respect to Europe and the Euro-zone as a Relevant Financial Centre 11.00 hours (Central European Time).

“*Representative Amount*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the applicable Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“*Specified Currency*” means the currency specified as such in the applicable Final Terms or, if none is specified, the currency in which Notes are denominated.

“*Specified Duration*” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the applicable Final Terms or, if none is specified, a period of time equal to the relative Interest Period, ignoring any adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*).

“*TARGET System*” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto.

(k) *Calculation Agent and Reference Banks*: The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the applicable Final Terms and for so long as any Note is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of Notes, references in these Terms and Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Terms and Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm

engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## 6. RPI Linked Notes

This Condition 6 is applicable only if the applicable Final Terms specifies the relevant Notes as RPI Linked Notes.

(a) *Definitions:* In these Terms and Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“*affiliate*” means in relation to any person, any entity controlled, directly or indirectly, by that person, any entity that controls directly or indirectly, that person or any entity, directly or indirectly under common control with that person and, for this purpose, “control” means control as defined in the Companies Act 1985.

“*Base Index Figure*” means (subject to Condition 6(c)(i) (*Change in base*)) the base index figure as specified in the applicable Final Terms.

“*Index*” or “*Index Figure*” means, subject to Condition 6(c)(i) (*Change in base*), the UK Retail Price Index (RPI) (for all items) published by the Central Statistical Office (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt. Any reference to the Index Figure which is specified in the relevant Final Terms as:

- (i) applicable to a particular month, shall, subject to Conditions 6(c) (*Changes in Circumstances Affecting the Index*) and 6(e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or
- (ii) applicable to the first calendar day of any month shall, subject to Conditions 6(c) (*Changes in Circumstances Affecting the Index*) and 6(e) (*Cessation of or Fundamental Changes to the Index*), be construed as a reference to the Index Figure published in the second month prior to that particular month and relating to the month before that of publication; or
- (iii) applicable to any other day in any month shall, subject to Conditions 6(c) (*Changes in Circumstances Affecting the Index*) and 6(e) (*Cessation of or Fundamental Changes to the Index*), be calculated by linear interpolation between (x) the Index Figure applicable to the first calendar day of the month in which the day falls, calculated as specified in sub-paragraph (ii) above and (y) the Index Figure applicable to the first calendar day of the month following, calculated as specified in sub-paragraph (ii) above and rounded to the nearest fifth decimal place.

“*Index Ratio*” applicable to any month or date, as the case may be, means the Index Figure applicable to such month or date, as the case may be, divided by the Base Index Figure.

“*Limited Index Ratio*” means (a) in respect of any month or date, as the case may be, prior to the relevant Issue Date, the Index Ratio for that month or date, as the case may be; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month or date, as the case may be and the Limited Index Ratio as previously calculated in respect of that month or date, as the case may be, twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month.

“*Limited Indexation Date*” means any date falling during the period specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated.

“*Limited Indexation Factor*” means, in respect of a Limited Indexation Month or Limited Indexation Date, as the case may be, the ratio of the Index Figure applicable to that month or date, as the case may be

divided by the Index Figure applicable to the month or date, as the case may be twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the applicable Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the applicable Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor.

“*Limited Indexation Month*” means any month specified in the applicable Final Terms for which a Limited Indexation Factor is to be calculated.

“*Limited RPI Linked Notes*” means RPI Linked Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the applicable Final Terms) applies.

“*Reference Gilt*” means the Treasury Stock specified as such in the applicable Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Issuer and approved by the Trustee (an “Indexation Adviser”).

(b) *Application of the Index Ratio:* Each payment of interest and principal in respect of Notes shall be the amount provided in, or determined in accordance with, these Terms and Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited RPI Linked Notes applicable to the month or date, as the case may be, in which such payment falls to be made and rounded in accordance with Condition 5(g) (*Maximum/Minimum Rates of Interest, Maximum/Minimum Redemption Amounts and Rounding*).

(c) *Changes in Circumstances Affecting the Index:*

- (i) *Change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “Index” and “Index Figure” in Condition 6(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefor); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure (being 189.60 in October 2005 (that is, the index published in March 2005 and relating to February 2005)) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) *Delay in publication of Index if sub-paragraph (i) of the definition of Index Figure is applicable:* If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the “relevant month”) before the month in which a payment is due to be made is not published on or before the fourteenth Business Day before the date on which such payment is due (the “date for payment”), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 6(c)(i) (*Change in base*)) before the date for payment.
- (iii) *Delay in publication of Index if sub-paragraph (ii) and/or (iii) of the definition of Index Figure is applicable:* If the Index Figure relating to any month (the “calculation month”) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the “date for payment”), the Index Figure applicable for the relevant calculation month shall be (1) such substitute index figure (if any) as the Trustee considers to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by an Indexation Adviser (and approved by the Trustee) or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 6(c)(i) (*Change in base*)) before the date for payment.

(d) *Application of Changes:* Where the provisions of Condition 6(c)(ii) or 6(c)(iii) apply, the determination of the Indexation Adviser as to the Index Figure applicable to the month in which the date for payment falls shall be conclusive and binding. If, an Index Figure having been applied pursuant to Condition 6(c)(ii)(2) or 6(c)(iii)(2), the Index Figure relating to the relevant month is subsequently published while a Note is still Outstanding, then:

- (i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 6(c)(ii)(2), below or above the amount of the relevant payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and
- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

(e) *Cessation of or Fundamental Changes to the Index:*

- (i) If (A) the Trustee and the Issuer have been notified by the Calculation Agent that the Index has ceased to be published; or (B) any change is made to the coverage or the basic calculation of the Index which, in the opinion of an Indexation Adviser, constitutes a fundamental change which would, in the opinion of such Indexation Adviser, be materially prejudicial to the interests of the Noteholders, the Issuer and the Trustee acting on the advice of an Indexation Adviser together shall seek to agree for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.
- (ii) If the Issuer and the Trustee acting on the advice of an Indexation Adviser fail to reach agreement as mentioned above within 20 Business Days following the giving of notice as mentioned in paragraph (i), a bank or other person in London shall be appointed by the Issuer and the Trustee acting on the advice of an Indexation Adviser or, failing agreement on and the making of such appointment within 20 Business Days following the expiry of the 20 day period referred to above, by the Trustee (such bank or other person so appointed being referred to as the “Expert”), acting on the advice of an Indexation Adviser to determine for the purpose of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the Noteholders in no better and no worse position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of any Indexation Adviser and of any of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.
- (iii) The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee acting on the advice of an Indexation Adviser or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references in these Terms and Conditions to the Index and to any Index Figure shall be deemed amended in such manner as the Trustee acting on advice of an Indexation Adviser and the Issuer agree are appropriate to give effect to such adjustment or replacement. Such amendments shall be effective from the date of such notification and binding upon the Issuer, the Trustee and the Noteholders, and the Issuer shall give notice to the Noteholders in accordance with Condition 16 (*Notices*) of such amendments as promptly as practicable following such notification.

## **7. Redemption, Purchase and Options**

- (a) *Final Redemption:* Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the applicable Final Terms at its Final Redemption Amount.

(b) *Early Redemption*

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 (*Events of Default*), shall be the Amortised Face Amount (calculated as provided in sub-paragraph (B) below) of such Note unless otherwise specified.
- (B) Subject to the provisions of sub-paragraph (C) below, the “Amortised Face Amount” of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown, shall be such rate as would produce an Amortised Face Amount equal to the issue price of Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(f) (*Accrual of Interest*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the applicable Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 7(c) (*Redemption for Tax Reasons*) or upon it becoming due and payable as provided in Condition 11 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified.

(c) *Redemption for Taxation Reasons:*

If, on the occasion of the next payment in respect of Notes the Issuer is unable to make such payment without having to deduct or withhold Tax as described in Condition 9 (*Taxation*), and such requirement to pay such additional amounts arises by reason of a change in the laws of the United Kingdom or any political sub-division of the United Kingdom or taxing authority in the United Kingdom or any political sub-division of the United Kingdom or in the interpretation or application of the laws of the United Kingdom or any political sub-division of the United Kingdom or in any applicable double taxation treaty or convention, which change becomes effective on or after the Issue Date, and such requirement cannot be avoided by the Issuer taking reasonable measures (such measures not involving any material additional payments by, or expense for, the Issuer), then the Issuer may, in order to avoid the relevant deduction or withholding, arrange for the substitution of a company incorporated in another jurisdiction as principal debtor under the Notes, provided that such substitution is approved by the Trustee and provided further that the Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders.

If the Issuer is unable to arrange a substitution as described above and, as a result the requirement to deduct or withhold Tax as described in Condition 9 (*Taxation*) is continuing, the Issuer may on any Interest Payment Date or, if so specified on the Note or in the case of any Zero Coupon Note, at any time, redeem Notes of the relevant Series in whole but not in part (i) upon not more than 60 nor fewer than 30 days' prior notice or (ii) upon such shorter notice as is practicable if the notice described in (i) would expire after the

next date on which a payment is due on the Notes, each such notice given in accordance with Condition 16 (*Notices*) below (which notice shall be irrevocable), at their Principal Amount Outstanding together with, unless otherwise specified, any interest accrued up to (but excluding) the date set for redemption, provided, however, that (i) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due and (ii) at the time such notice of redemption is given, such obligation to pay such additional amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and that the Issuer will have sufficient funds available for making such redemption and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to make such deduction or withholding, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

(d) *Redemption at the Option of the Issuer (Issuer Maturity Call)*

If the term “Issuer Maturity Call” is specified in the applicable Final Terms, the Issuer may, having given:

- (i) not fewer than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 16; and
- (ii) not fewer than 15 days before the giving of the notice referred to in (i) above, notice to the Trustee and to the Paying Agent,

(or such other notice period as may be specified in the applicable Final Terms, which notices to the Noteholders only shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (and excluding) the Maturity Date, at the Final Redemption Amount specified in the applicable Final Terms, together (if appropriate) with interest accrued (but unpaid) to (but excluding) the date fixed for redemption.

(e) *Redemption at the Option of the Issuer (Issuer Call) and Partial Redemption:*

If the term “Issuer Call” is specified in the applicable Final Terms, the Issuer may, on giving not fewer than 15 nor more than 30 days’ irrevocable notice to the Trustee and the Noteholders (or such other notice period as may be specified in the applicable Final Terms) redeem, or exercise any Issuer’s option (as may be described in the applicable Final Terms) in relation to, all or, if so provided, some Notes on any Interest Payment Date or any other Optional Redemption Date (that is, if the term “Issuer Maturity Call” is specified to be applicable in the applicable Final Terms, more than 90 days prior to the Maturity Date) specified in the applicable Final Terms, as the case may be, provided always that no Event of Default has occurred and is continuing at the time of such redemption or would occur by reason of such redemption. Any such redemption of Notes shall be at their Optional Redemption Amount as follows:

- (i) In respect of Fixed Rate Notes, the Optional Redemption Amount will, unless otherwise specified in the applicable Final Terms, be an amount equal to the higher of (i) their Principal Amount Outstanding; and (ii) the price as reported in writing to the Issuer and the Trustee by a financial adviser in London (selected by the Issuer and approved in writing by the Trustee) at which the Gross Redemption Yield (as defined below) on such Notes on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such UK government stock (or such other stock as specified in the applicable Final Terms for Notes denominated in currencies other than pounds sterling) as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved in writing by the Trustee) determine to be appropriate, plus interest accrued but unpaid on the Principal Amount Outstanding to (but excluding) the date fixed for redemption.

For the purposes of this Condition 7(e)(i), “Gross Redemption Yield” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated at page 5 of the United



Kingdom Debt Management Office publication “Formulae for Calculating Gilt Prices from Yields” (3rd edition) published on 16 March 2005 (and as further updated, supplemented, amended or replaced from time to time); “Reference Date” means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 7(e); and “Reference Gilt” means the Treasury Stock specified in the applicable Final Terms.

- (ii) In respect of Floating Rate Notes, the Optional Redemption Amount will, unless otherwise specified in the applicable Final Terms, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the applicable Final Terms) plus any interest accrued but unpaid on the Principal Amount Outstanding to (but excluding) the date fixed for redemption.
- (iii) In respect of RPI Linked Notes, the Optional Redemption Amount will (unless specified in the applicable Final Terms) be the higher of (i) the Principal Amount Outstanding; and (ii) the price as reported in writing to the Issuer and the Trustee (without any additional indexation beyond the implicit indexation in such determined price) by a financial adviser in London (selected by the Issuer and approved in writing by the Trustee) as being the price at which the Gross Real Redemption Yield (as defined below) on Notes on the Reference Date (as defined below) is equal to the Gross Real Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt while that stock is in issue, and thereafter such UK government stock as the Issuer may, with the advice of three persons operating in the gilt-edged market, (selected by the Issuer and approved by the Trustee), determine to be appropriate, plus interest (as adjusted in accordance with Condition 6(b) (*Applications of the Index Ratio*)) accrued but unpaid on the Principal Amount Outstanding to (but excluding) the date fixed for redemption.

For the purposes of this Condition 7(e)(iii), “Gross Real Redemption Yield” means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated at page 5 of the United Kingdom Debt Management Office publication “Formulae for Calculating Gilt Prices from Yields” (3rd edition) published on 16 March 2005; “Reference Date” means the date which is two Business Days prior to the despatch of the notice of redemption under Condition 7(e); and “Reference Gilt” means the Treasury Stock specified in the applicable Final Terms.

Any redemption or exercise under this Condition 7(e) must relate to Notes of a nominal amount at least equal to the minimum nominal amount to be redeemed as specified in the applicable Final Terms and no greater than the maximum nominal amount to be redeemed specified in the applicable Final Terms. All Notes in respect of which any such notice is given shall be redeemed, or the Issuer’s option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption of Notes pursuant to this Condition 7(e) or Condition 7(d) (*Redemption at the Option of the Issuer (Issuer Maturity Call)*) above, the Notes to be redeemed (“Redeemed Notes”) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note or by a Global Certificate, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Bearer Notes, a list of the serial numbers of such Redeemed Notes will be published by the Issuer in accordance with Condition 16 (*Notices*) not less than 15 days prior to the date fixed for redemption.

(f) *Redemption for Index Reasons*

In the case of RPI Linked Notes only, if either (i) the Index Figure (as defined in Condition 6 (*RPI Linked Notes*)) for three consecutive months fails to be determined on the basis of an Index Figure previously published as provided in Condition 6 (*RPI Linked Notes*) and the Trustee and the Issuer have been notified by the Calculation Agent that publication of the Index (as defined in Condition 6 (*RPI Linked Notes*)) has ceased or (ii) notice is published by Her Majesty’s Treasury, or on its behalf, following a change in relation to the Index (as defined in Condition 6 (*RPI Linked Notes*)), offering a right of redemption to holders of all sterling obligations of the United Kingdom Government listed on the Official List and traded on the London Stock Exchange, linked to the Index (“*RPI Linked Gilts*”), and (in either case) no amendment or substitution of the Index shall have become effective pursuant to Condition 6(e)(iii) and such circumstances are continuing, the Issuer shall, having given not more than 60 nor fewer than 30 days’ notice to holders of

the RPI Linked Notes in accordance with Condition 16 (*Notices*) redeem all, but not some only, of the RPI Linked Notes at their Principal Amount Outstanding together with accrued interest up to but excluding the date of redemption (all adjusted for indexation as provided in Condition 6 (*RPI Linked Notes*)), the Index Ratio for this purpose being that applicable to the month in which redemption takes place.

(g) *Purchases*: The Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price. Except as may be specified in the applicable Final Terms, such Notes may be held, resold or, at the option of the Issuer, surrendered to the Principal Paying Agent for cancellation, in accordance with all relevant laws and regulations.

(h) *Cancellation*: All Notes purchased by or on behalf of the Issuer or any of its subsidiaries which are surrendered for cancellation shall, in the case of Bearer Notes, be surrendered together with all unmatured Coupons and all unexchanged Talons to the Principal Paying Agent and, in the case of Registered Notes, the Certificate representing such Notes shall be surrendered to the Registrar and, in each case shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

## **8. Payments**

(a) *Bearer Notes*: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant, Notes (if the Global Note is not issued in NGN form) (in the case of all payments of principal and, in the case of interest, as specified in Condition 8(f)(v)) or Coupons (in the case of interest, save as specified in Condition 8(f)(v)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "Bank" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

### *(b) Registered Notes*

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates (if the Certificate is not held in the NSS) at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business (in the international central securities depositories) before the due date for payment thereof, subject to clause (d) below (the "Record Date"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency, maintained by the payee with a Bank.

(c) *Payments in the United States*: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Payments Subject to Fiscal Laws*: Save as provided in Condition 9 (*Taxation*) all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Appointment of Agents:* The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent (where the Calculation Agent is the Principal Paying Agent) initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar, the Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that each Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Terms and Conditions so require, (v) a Paying Agent having specified offices in a major European city (which may include the Principal Paying Agent), (vi) such other agents as may be required by the rules of any stock exchange on which Notes may be listed and (vii) a Paying Agent with a specified office in a European Union Member State (if any) that will not be obliged to withhold or deduct tax pursuant to EU Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars only in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*).

(f) *Unmatured Coupons and unexchanged Talons*

- (i) Unless Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10 (*Prescription*)).
- (ii) If Notes so provide, upon the due date for redemption of any Bearer Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) *Talons:* On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Agent in exchange for a further Coupon sheet (and if necessary another

Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).

(h) *Non-Business Days*: If any date for payment in respect of any Note or Coupon is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

## 9. Taxation

All payments of principal and/or interest in respect of Notes and Coupons will be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within the United Kingdom or by or on behalf of any political subdivision thereof or any authority therein having power to tax (a "Tax"), unless deduction or withholding of such Tax is required by law. In that event the Issuer will pay such additional amounts as will result (after such deduction or withholding) in the receipt by the holders of Notes or Coupons of the amounts which would otherwise have been receivable (in the absence of such deduction or withholding), except that no such additional amount shall be payable in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is subject to such Tax in respect of such Note or Coupon by reason of his being connected with the United Kingdom (or any political subdivision thereof) otherwise than merely by holding such Note or Coupon; or
- (b) presented for payment by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional payment on presenting the same for payment on the last day of such 30 day period; or
- (d) where such withholding or deduction is imposed on a payment to or, for, an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the Note or Coupon to another Paying Agent in a Member State of the European Union.

For the avoidance of doubt, no additional amounts shall be payable where any withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the United States Internal Revenue Code of 1986 (the "Code") or is otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations, agreements or undertakings thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used in these Terms and Conditions, "Relevant Date" in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 16 (*Notices*) that, upon further presentation of Note (or relevant Certificate) or Coupon being made in accordance with the Terms and Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Terms and Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 7 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition 9.

## 10. Prescription

Claims against the Issuer for payment in respect of Notes and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 11. Events of Default

(a) *Events of Default*: Each of the following events shall constitute an “Event of Default” in relation to any Tranche of Notes issued by the Issuer:

- (i) there is default in the payment of any principal on the due date therefor or a default for a period of 3 days or more in the payment of interest due in respect of the Notes pursuant to Condition 5 (*Interest and other Calculations*);
- (ii) there is default in the performance or observance by the Issuer of any other obligation or provision under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, which is not remedied within 60 days after notice of such default shall have been given to the Issuer by the Trustee;
- (iii) if (A) any Financial Indebtedness (as defined in Condition 12 (*Covenants*)) or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions of the Issuer or any Relevant Subsidiary of the Issuer becomes due and payable prior to its stated maturity by reason of any actual event of default, or (B) any amount in respect of such Financial Indebtedness or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Financial Indebtedness or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions in respect of which one or more of the events mentioned above in this paragraph (iii) have occurred equals or exceeds £50,000,000 with respect to the Issuer;
- (iv) the ratio of Net Financial Indebtedness to Adjusted Regulated Asset Value (each as defined in Condition 12 (*Covenants*)) of the Issuer exceeds 0.95:1;
- (v) the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts within the meaning of Section 123(1)(e) or Section 123(2) of the Insolvency Act 1986;
- (vi) the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in its country of incorporation;
- (vii) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved by an Extraordinary Resolution of holders of the relevant Tranche of Notes;
- (viii) a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or a substantial part of its undertaking or assets or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of its assets and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may permit);
- (ix) an application is made in respect of the Issuer under Section 156 of the Energy Act 2004 and is not dismissed within 60 days or an energy administration order is made in respect of the Issuer by a court under Chapter 3 of Part 3 of the Energy Act 2004; or
- (x) a Restructuring Event (as defined in Condition 11(d) (*Definitions*)) occurs in respect of the Issuer and: (A) a Rating Downgrade (as defined in Condition 11(d) (*Definitions*)) in respect of such Restructuring Event occurs and (B) an Independent Financial Adviser (as defined in Condition 11(d))

(*Definitions*) shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of Noteholders (a “Negative Certification”),

provided that:

- (A) in the case of paragraphs (ii) to (ix) (inclusive) above the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders; and
- (B) in the case of paragraph (x) above, prior to any Negative Certification being issued, an event shall be deemed not to be a Restructuring Event if, notwithstanding the occurrence of a Rating Downgrade, the rating for the time being assigned to the Notes is subsequently increased to, or, as the case may be, there is assigned to the Notes or any other unsecured, unguaranteed and unsubordinated debt obligation of the Issuer having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB—/Baa3 or their respective equivalents for the time being) or better.

Any Negative Certification and any certification by the Trustee pursuant to proviso (A) above shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Noteholders.

For the purpose of sub-paragraph (v) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for “£750” there was substituted “£250,000” or such higher figure as the Authority (as defined in Condition 11(d) (*Definitions*)) may from time to time determine by notice in writing to the Secretary of State (as referred to in the relevant GT Licence) and the Issuer.

The Issuer shall not be deemed to be unable to pay its debts for the purposes of sub-paragraph (v) above if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith and in an expeditious manner by the Issuer with recourse to all appropriate measures and procedures.

The Trust Deed provides that the Trustee will not be bound to take any steps to ascertain whether a Restructuring Event, a Rating Downgrade, an Event of Default or any other event which could lead to the occurrence of or, together with other events, constitute a Restructuring Event, a Rating Downgrade or an Event of Default has occurred and, until it shall have express notice to the contrary, the Trustee will be entitled to assume that no Restructuring Event, Rating Downgrade, Event of Default or other such event has occurred.

(b) *Consequences of Event of Default*: If any Event of Default occurs in relation to any Tranche of Notes and is continuing, then the Trustee (A) at its discretion may, and (B) if so requested by the holders of at least one-quarter in nominal amount of the relevant Tranche of Notes then Outstanding or if so directed by an Extraordinary Resolution of the holders of the relevant Tranche of Notes shall (in either case subject to being indemnified and/or secured to its satisfaction), give notice to the Issuer at its registered office that the relevant Tranche of Notes issued by the Issuer is, and it shall accordingly immediately become, due and repayable at the relevant Early Redemption Amount together with accrued interest (if any) to the date of payment, without further action or formality.

(c) *Enforcement*: If an Event of Default has occurred in relation to the Notes of any Tranche and is continuing and if the Trustee has given notice to the Issuer in accordance with Condition 11(b) (*Consequences of Event of Default*), then the Trustee (A) at its discretion may, and (B) if so requested by the holders of at least one-quarter in nominal amount of the relevant Tranche of Notes then Outstanding or if so directed by an Extraordinary Resolution of the holders of the relevant Tranche of Notes shall (in either case subject to being indemnified and/or secured to its satisfaction), institute such proceedings against the Issuer as it may think fit or, as the case may be, as it may be required or directed to institute to enforce any obligation, condition or provision binding on the Issuer under the relevant Notes or under the Trust Deed.

No Noteholder or Couponholder shall be entitled to institute proceedings directly against the Issuer or against any assets of the Issuer to enforce its rights in respect of Notes issued by the Issuer unless the Trustee, having become bound to proceed as specified above, fails to do so within a reasonable time and such failure is continuing.

(d) *Definitions:*

“*Authority*” means the Gas and Electricity Markets Authority or the Office of Gas and Electricity Markets, as applicable, or a successor to either of them.

“*Independent Financial Adviser*” means a financial adviser appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of a Restructuring Event and the Trustee is indemnified and/or secured to its satisfaction, appointed by the Trustee following consultation with the Issuer.

“*Rating Agency*” means Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors or Moody’s Investors Service Limited or any of its subsidiaries and their successors or Fitch Ratings Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee.

A “*Rating Downgrade*” shall be deemed to have occurred in respect of a Restructuring Event if, within 60 days of the occurrence of a Restructuring Event, the rating assigned to the long-term unsecured, unguaranteed and unsubordinated debt obligations of the Issuer for the time being by any Rating Agency (and where any rating by such Rating Agency is at the invitation of the Issuer) immediately prior to the announcement of such Restructuring Event is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the rating assigned to the long-term unsecured, unguaranteed and unsubordinated debt obligations of the Issuer immediately prior to such Restructuring Event is below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lowering) and, in either case, if the Rating Agency making the Rating Downgrade announces or publicly confirms, or informs the Trustee in writing, that the Rating Downgrade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

A “*Relevant Subsidiary*” means a subsidiary (within the meaning of section 736 of the Companies Act 1985) whose assets are included in the calculation of Adjusted Regulated Asset Value.

“*Restructuring Event*” means the occurrence of any of the following events:

- (i) (A) the Authority giving the Issuer and or any Relevant Subsidiary written notice of any revocation or termination of its GT Licence or (B) the Issuer agreeing in writing with the Authority to any revocation or surrender of its GT Licence or (C) any legislation (whether primary or subordinate) is enacted terminating or revoking its GT Licence, except in any such case in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Issuer or a wholly owned Relevant Subsidiary of the Issuer and, in the case of such Relevant Subsidiary, at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes the primary obligor under the Notes; or
- (ii) any material rights, benefits or obligations under its GT Licence or any material terms of the GT Licence are modified (whether or not with the consent of the Issuer and whether pursuant to the Gas Act 1986 or otherwise but excluding an adjustment to prices) or any other material consents, licences or authorisations are revoked unless two directors of the Issuer have certified in good faith to the Trustee that: (A) the modified terms and conditions would not have a material adverse effect on the Issuer; or (B) any such revocation would not have a material adverse effect on the Issuer; or
- (iii) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying in any material way the duties or powers of the Secretary of State (or any successor) and/or the Authority (including without limitation any such legislation removing, reducing or qualifying such duties or powers under or pursuant to the Gas Act and the Energy Act) unless two directors of the Issuer have certified in good faith to the Trustee that such removal, reduction or qualification of any such duties or powers would not have a material adverse effect on the Issuer.

## 12. Covenants

The Issuer has undertaken for the benefit of the Trustee that, *inter alia*, for so long as any Note remains Outstanding:

- (a) it will not change the nature of its business if such change in business is not in compliance with its obligations under its GT Licence;
- (b) it will operate its business in accordance with its GT Licence and it will not transfer its GT Licence;
- (c) it will provide to the Trustee within 60 days following 31 March and 30 September in each year a certificate signed by two directors of the Issuer stating its Regulated Asset Ratio;
- (d) it will, for at least two days of each fiscal year, repay in full any Working Capital Facility and will provide to the Trustee within 60 days following the end of the fiscal year a certificate in respect of that fiscal year, signed by either the chief financial officer or chief operating officer (or an equivalent officer replacing either of them) of the Issuer verifying that all drawdowns under any Working Capital Facility during the relevant fiscal year were used during the relevant fiscal year for the purposes described in the definition of “Working Capital Facility” and not for any other purpose;
- (e) it will not, directly or indirectly, make any Distribution unless (i) the certificate referred to in paragraph (c) above confirms that the Regulated Asset Ratio is not greater than 0.775:1 and (ii) the Regulated Asset Ratio following the payment of such Distribution would not be greater than 0.775:1 (and will not put in place alternative arrangements, the purpose of which is intended to circumvent any such limitation on the limitation on the payment of Distributions);
- (f) it will not incur further Financial Indebtedness if the Regulated Asset Ratio would be greater than 0.775:1 (adjusted on a *pro forma* basis to take account of the proposed incurrence of such further Financial Indebtedness);
- (g) it will comply with a hedging policy containing the following provisions (as more particularly described in the Trust Deed):
  - (i) all non-sterling interest bearing debt will be fully hedged into sterling (or the then currency of the United Kingdom of Great Britain and Northern Ireland); and
  - (ii) a minimum of 75 per cent. of its debt will be (A) fixed rate, (B) index-linked or (C) hedged so that the interest exposure of the Issuer is either fixed rate or index-linked;
- (h) it will give notice to the Trustee of (i) late payment under the Notes; (ii) the occurrence of a Restructuring Event; (iii) the occurrence of a Rating Downgrade; and (iv) the occurrence of an Event of Default; and
- (i) it will use its reasonable endeavours to maintain an investment grade rating in respect of its long-term unsecured, unguaranteed and unsubordinated debt obligations.

For the purpose of these Terms and Conditions:

“*Adjusted Regulated Asset Value*” on a given date is the regulated asset value attributed to the Issuer for such date as last determined and notified to the Issuer by the Authority at the most recent regulatory review, adjusted for interpolation and out-turn inflation to be included by the Authority since the most recent determination or (if this is not available) a certified estimate signed by two Directors of the Issuer, plus any adjustments relating to under/over spends of total expenditure.

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

“*Associate*” means:

- (a) any person who has a Controlling Interest in any member of the SGN Group; or



(b) any person who is Controlled by a member of the SGN Group,

and in each case, any Affiliate of such person.

“Control” of one person by another person means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise and whether acting alone or in concert with another or others) has the power to appoint and/or remove the majority of the members of the governing body of that person or otherwise controls or has the power to control the affairs and policies of that person (and references to “Controlled” and “Controlling” shall be construed accordingly).

“Distribution” means any payments (including any payments of distributions, dividends, bonus issues, return of capital, interest or principal (by way of loan or repayment of any loan or otherwise)) (in cash or in kind) to any Associate or Affiliate other than payments made to such persons pursuant to arrangements (excluding, for the avoidance of doubt, loans from Associates or Affiliates) entered into on terms no less favourable to the Issuer than on a bona fide arm’s length basis in the ordinary and usual course of operation of its business.

“Financial Indebtedness” shall mean any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of:

- (a) moneys borrowed (excluding the first £25 million of outstanding drawings made by each Issuer under any Working Capital Facility); or
- (b) any notes, bonds, debentures, debenture stock, loan stock or other debt securities (evidencing moneys borrowed or raised) offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part or for a consideration other than cash; or
- (c) the amount of any liability in respect of any lease or hire purchase contract which would be treated in accordance with applicable GAAP as a finance lease; or
- (d) any amount raised by the issue of redeemable shares; or
- (e) the amount of any liability in respect of any guarantee or indemnity given in respect of any of the items referred to in paragraphs (a) to (d) above, or
- (f) any amounts drawn under any documentary, acceptance or standby letter of credit facility; or
- (g) receivables sold or discounted (otherwise than on a non-recourse basis); or
- (h) 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; or
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing (other than any trade credit or indemnity granted in the ordinary course of trading and upon terms usual for such trade); or
- (j) any counter-indemnity obligation that has become payable in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) accretions to the notional amount by indexation of any index-linked hedging transaction;

but excluding:

- (i) any present or future, actual or contingent liability arising in connection with any derivative or hedging transaction (including any termination payment due or mark-to-market position under any such transaction); or

- (ii) any notes, bonds, debentures, debenture stock, loan stock or other indebtedness held by its shareholder or the shareholders of SGN.

“*Holding Company*” means a holding company within the meaning of section 736 of the Companies Act 1985.

“*Net Financial Indebtedness*” means the aggregate principal amount outstanding (as adjusted for indexation, where applicable) of Financial Indebtedness of the Issuer (as the case may be) minus cash or cash equivalents (including cash balances on any accounts of the Issuer).

“*Overspend Allowance*” means amounts in respect of capital expenditure and capitalised replacement expenditure overspends which may be included in the calculation of Adjusted Regulated Asset Value provided that two directors of the Issuer have signed a certificate confirming in good faith that:

- (i) such capital and capitalised replacement expenditure overspends have been incurred efficiently;
- (ii) the Issuer has made the Authority aware of the amounts, the nature and the reason for such overspend, and why the Issuer believes the overspend to be efficiently incurred expenditure appropriate for inclusion in the Issuer’s Regulated Asset Value at the immediately following regulatory review;
- (iii) the directors or officers of the Issuer have not received any indication from appropriately authorised personnel of the Authority either orally or in writing that it is highly unlikely (in the reasonable opinion of the directors so certifying) that the Authority will include such capital and capitalised replacement expenditure overspends in the Issuer’s Regulated Asset Value at the immediately following regulatory review; and
- (iv) the Issuer expects the Authority to include all such capital and capitalised replacement expenditure overspends in the Issuer’s Regulated Asset Value at the immediately following regulatory review.

“*Regulated Asset Ratio*” at each 31 March and 30 September or such other date at which a calculation is required to be made, means the ratio of the Total Senior Financial Indebtedness to Adjusted Regulated Asset Value.

“*Regulated Asset Value*” means the regulated asset value attributed to the Issuer as last determined and notified to the Issuer by the Authority at the most recent regulatory review.

“*Senior Debt Obligations*” means Financial Indebtedness of the Issuer ranking *pari passu* with (or senior to) the Notes.

“*SGN Group*” means the Issuers and Scotia Gas Networks Limited.

“*Subsidiary*” means (a) a subsidiary within the meaning of section 736 of the Companies Act 1985; and (b) unless the context otherwise required, a subsidiary undertaking within the meaning of section 258 of the Companies Act 1985.

“*Total Senior Financial Indebtedness*” means the aggregate principal amount outstanding (as adjusted for indexation, where applicable) of Senior Debt Obligations of the Issuer minus cash or cash equivalents (including cash balances on any accounts of the Issuer).

“*Working Capital Facility*” means any financing facility used for working capital purposes only and drawn only to the extent required to fund any cash shortfall requirement related to the ongoing operations of the Issuer (and, for the avoidance of doubt, may not be used for any other purpose such as funding (i) long-term assets, (ii) capital expenditure needs or other expenditures which would result in an addition to the Regulated Asset Value of the Issuer, (iii) payments in respect of Financial Indebtedness, (iv) payments in respect of derivative transactions or (v) to make Distributions).

### 13. Meetings of Noteholders and Modifications

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification of Notes, Coupons or any of the provisions of the Trust Deed, the Agency Agreement and any other document to which the Trustee is a party. Any modification may be made if sanctioned by a resolution passed at a meeting of the relevant Noteholders duly convened and held in accordance with the Trust Deed by a majority of not less than three-quarters of the votes cast (an “Extraordinary Resolution”) at such meeting. Such a meeting may be convened by the Trustee or the Issuer, and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth in nominal amount of the relevant Notes for the time being Outstanding.

The Trust Deed provides that where more than one Tranche of Notes is Outstanding:

- (i) matters which the Trustee in its absolute discretion determines affect the Noteholders of one Tranche of Notes only shall be transacted at a separate meeting of the Noteholders of such Tranche and an Extraordinary Resolution passed at such meeting shall be deemed to have been duly passed;
- (ii) matters which the Trustee in its absolute discretion determines affect the Noteholders of more than one Tranche of Notes but do not give rise to a conflict of interest between the Noteholders of such Tranches of Notes shall be transacted at a single meeting of the Noteholders of all such Tranches of Notes and an Extraordinary Resolution passed at such meeting shall be deemed to have been duly passed;
- (iii) matters which the Trustee in its absolute discretion determines affect the Noteholders of more than one Tranche of Notes and give rise to a conflict of interest between the Noteholders of such Tranches of Notes shall be transacted at separate meetings of the Noteholders of each such Tranche and an Extraordinary Resolution shall be deemed to have been duly passed only if passed at each such separate meeting;
- (iv) references in paragraphs (i) to (iii) above to “matters” include the passing or rejection of any resolution.

The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. in nominal amount of the relevant Notes for the time being Outstanding or, at any adjourned meeting, one or more persons being or representing Noteholders, whatever the nominal amount of the relevant Notes held or represented, provided however, that any Extraordinary Resolution proposed to approve any of the following matters (each a “Basic Terms Modification”): any modification which would have the effect of (i) amending the dates of maturity or redemption of Notes or any date for payment of interest on any Tranche of Notes, (ii) modifying, reducing, cancelling or rescheduling the nominal amount of or any premium payable on redemption of, any Tranche of Notes, (iii) modifying, reducing, cancelling or rescheduling the rate or rates of interest in respect of any Tranche of Notes or varying the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of any Tranche of Notes (iv) if a Minimum and/or a Maximum Rate of Interest is shown on the face of Notes, reducing any such Minimum and/or Maximum Rate of Interest, (v) varying any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount or (vi) altering the currency of payment of any particular Tranche of Notes, (vii) removing or replacing the Trustee; or (viii) an alteration of (A) the definition of Basic Terms Modification, (B) the quorum or majority required to effect a Basic Terms Modification or (C) the quorum or majority required to pass an Extraordinary Resolution (all as further set out in the Trust Deed) may be sanctioned only by an Extraordinary Resolution passed at a meeting of Noteholders of the relevant Tranche of Notes at which one or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter in nominal amount of the Outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the relevant Noteholders and Couponholders whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. 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 Noteholders.

(b) *Modification*

Subject as set out below and in the Trust Deed, the Trustee may from time to time without the consent of the Noteholders, the Couponholders or the Talonholders agree to any modification to the Trust Deed, Notes, Coupons, Talons or any of the other Transaction Documents if, in the Trustee's opinion:

- (i) it is not materially prejudicial to the interests of the Noteholders of any Tranche; or
- (ii) it is made to correct a manifest error or is of a formal, minor or technical nature.

Any such modification shall be binding on the Trustee, the Issuer, the Noteholders, the Couponholders and the Talonholders and, unless the Trustee agrees otherwise, any such modification shall be notified to Noteholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

(c) *Waiver of breach and determination*

Subject as set out below and in the Trust Deed, the Trustee may, from time to time, without the consent of the Noteholders, the Couponholders or the Talonholders:

- (i) authorise or waive, on any terms and subject to any conditions which it considers appropriate, any proposed breach or breach of the Trust Deed, the relevant Tranche of Notes, the Coupons or the Talons or any of the other Transaction Documents; or
- (ii) determine that any event that would otherwise constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such for the purposes of the Trust Deed,

provided that, in the Trustee's opinion, it will not be materially prejudicial to the interests of the Noteholders of any Tranche.

Any such authorisation, waiver or determination shall be binding on the Trustee, the Issuer, the Noteholders the Couponholders and the Talonholders and, unless the Trustee agrees otherwise, any such modification shall be notified to Noteholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

The Trustee shall not exercise any power conferred on it by this Condition 13 in contravention of any express direction by an Extraordinary Resolution of the affected Tranche of Noteholders or of all Noteholders (as the case may be) or of a request in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of such Tranche or (as the case may be) all Notes then Outstanding.

The Trustee shall be entitled to take into account, for the purposes of exercising or performing any power, right, trust, authority, duty or discretion under or in relation to Notes, *inter alia*, any confirmation by any Rating Agency that the then current rating by it of the Notes would not be downgraded, withdrawn or qualified by such exercise or performance.

#### **14. Replacement of Notes, Certificates, Coupons and Talons**

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

## 15. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further Notes having the same terms and conditions as the Notes (save for the amount and date of the first payment of interest thereon) and so that the same shall be consolidated and form a single Series with such Notes, and references in these Terms and Conditions to “Notes” shall be construed accordingly provided always that the Regulated Asset Ratio of the Issuer (calculated on a *pro forma* basis following the issuance of such further Notes) would not be greater than 0.775:1.

## 16. Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If any such publication is not practicable notice shall be validly given if published in another leading daily English language newspaper with 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 or on different dates, on the date of the first publication as provided above.

A copy of each notice given in accordance with this Condition 16 shall be provided to each of the Rating Agencies.

The Trustee may approve some other method of giving notice to the Noteholders or any class of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require, and further provided that so long as Notes are listed on the stock exchange and the rules of that exchange so require, such notices shall always be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if this is not practicable in the opinion of the Trustee in another appropriate newspaper having general circulation in London previously approved in writing by the Trustee.

For so long as any Note is represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes or Certificates of that Tranche may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by this Condition or by delivery of the relevant notice to the holder of the Global Note or Global Certificate and, in addition, for so long as any Notes are listed on the stock exchange and the rules of the stock exchange or other relevant authority so require, such notices shall be published in accordance with requirements of the stock exchange or other relevant authority. Such notices shall be deemed to have been received by the Noteholders on the day of delivery to such clearing systems.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

## 17. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgement or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) to any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note or Coupon that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it shall be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the

Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgement order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgement or order.

## **18. Governing Law and Jurisdiction**

(a) *Governing Law:* The Trust Deed, Notes, Coupons, Talons (if any) and the other Transaction Documents and any non-contractual obligations arising out of or in connection with the Trust Deed, Notes, Coupons, Talons (if any) and the other Transaction Documents are governed by, and shall be construed in accordance with English law.

(b) *Jurisdiction:* Each of the Issuers irrevocably agrees that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, any Notes, Coupons or Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, Notes, Coupons or Talons (if any) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, any Notes, Coupons or Talons ("Proceedings") may be brought in such courts. Each of the Issuers irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts, on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the holders of Notes, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Appointment of process agent:* Scotland Gas Networks plc hereby appoints Scotia Gas Networks Limited, whose registered office is at St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ to accept service of any Proceedings in the English courts on its behalf and in the event of its ceasing so to act will appoint such other person as the Trustee may approve and as Scotland Gas Networks plc may nominate in writing to the Trustee for the purpose of accepting service of process on its behalf in England. Nothing in these Terms and Conditions shall affect the right to serve process in any other manner permitted by law.

(d) *Third Party Rights:* No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Any reference in this section to “applicable Final Terms” shall be deemed to include a reference to “applicable Pricing Supplement” where relevant.

### Initial Issue of Notes

If the Global Notes or Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held in the NSS as applicable, (i) they will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper and (ii) the relevant clearing systems will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the Global Notes or Global Certificates with the Common Safekeeper does not necessarily mean that the Notes 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.

Global Notes which are issued in CGN form and Global Certificates which are not to be held in the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN or the Global Certificate is not to be held in the NSS, upon the initial deposit of the Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “Common Depository”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, or if the Global Certificate is held in the NSS, the nominal amount of the relevant Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note or the Global Certificate, as the case may be, and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depository may also be credited (if indicated in the applicable Final Terms) to the accounts of subscribers with other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

### Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be) for his share of each payment made by the relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such clearing system (as the case may be). Such persons shall have no claim directly against the relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such relevant Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

### Exchange

#### *Temporary Global Notes*

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the applicable Final Terms indicate that such Global Note is issued in a transaction to which TEFRA is not applicable (as to which, see “Summary of the Programme-Selling Restrictions”), in

whole, but not in part, for the Definitive Notes defined and described below; and

- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the applicable Final Terms, for Definitive Notes

#### ***Permanent Global Notes and Global Certificates – Exchange Event***

Each Permanent Global Note and each Global Certificate will be exchangeable, free of charge to the holder, in whole but not, in part, for Definitive Notes and Individual Certificates, respectively:

- (1) if an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing;
- (2) if the Permanent Global Note or Global Certificate, as the case may be, is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no alternative clearing system satisfactory to the Trustee is available; or
- (3) if as a result of any amendment to, or change in the laws or regulation of the United Kingdom (or any political sub division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Issue Date, the relevant Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

#### ***Delivery of Notes***

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes (in the circumstances described in the section entitled “Exchange” above only), deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates as the case may be or if the Global Note is an NGN, the relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, “Definitive Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that has not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

#### ***Exchange Date***

“*Exchange Date*” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not fewer than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 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 city in which the relevant clearing system is located.



### ***Amendment to the Terms and Conditions***

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

#### ***Payments***

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima-facie evidence that such payment has been made in respect of the Notes. If the Global Note is an NGN, 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 Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. 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.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means each Monday, Tuesday, Wednesday, Thursday and Friday except 25 December and 1 January.

#### ***Cancellation***

Cancellation of any Note represented by a Permanent Global Note or of any Note represented by a Global Certificate that is required by the Terms and Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note or Global Certificate.

#### ***Purchase***

Notes represented by a Permanent Global Note or Notes represented by a Global Certificate may only be purchased by the Issuers or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

#### ***Issuer's Option***

Any option of the relevant Issuer provided for in the Terms and Conditions of any Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the relevant Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

#### ***NGN nominal amount***

Where the Global Note is an NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being

made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

## **USE OF PROCEEDS**

The net proceeds from the issue of Notes will be used by each Issuer for general corporate purposes.

## BUSINESS DESCRIPTION

### DESCRIPTION OF THE ISSUERS

Southern GN was incorporated in England and Wales on 30 June 2004 as Blackwater G Limited under the Companies Act 1985 with the registration number 5167021 as a private company with limited liability. It changed its name to Southern Gas Networks Limited on 1 June 2005 and converted to a public limited company on 28 September 2005.

Scotland GN was incorporated in Scotland on 26 February 2004 as Blackwater SC A Limited under the Companies Act 1985 with the registration number SC264065 as a private company with limited liability. It changed its name to Scotland Gas Networks Limited on 1 June 2005 and converted to a public limited company on 29 September 2005.

#### *Business Description*

The principal activities of the Issuers are the transportation of gas and the ownership, operation and development of the gas transportation network in their respective areas of operation. Southern GN operates in the south of England in an area which includes the London boroughs to the south of the River Thames and covering Milton Keynes in the north, Dover in the east and Lyme Regis in the west. Scotland GN operates in the whole of Scotland.

#### *Industry Overview*

The UK is the largest gas market in Western Europe. The current gas industry structure resulted from the privatisation of British Gas in 1986 and its subsequent restructuring into competitive production and supply businesses and a regulated gas transportation business.

The gas transportation system in Great Britain (England, Scotland and Wales) comprises the NTS, which consists of approximately 4,200 miles of high pressure pipelines and 26 compressor stations, connecting to eight lower pressure regional distribution networks (“distribution networks”) and third party independent systems for onward transportation of gas to final customers. The NTS receives gas from Britain’s seven coastal terminals, nine major storage sites (including one LNG site located at a strategic position on the NTS), two small onshore fields and two major importation terminals. It is connected to Europe via interconnectors and pipelines owned by third parties; for example, the Bacton/Zeebrugge interconnector connects the NTS with continental Europe, allowing both the import and export of gas.

#### *Gas Transportation*

Each Issuer receives gas from the NTS from “Offtakes”, which are exit points at which gas flows from the NTS into a DN. The Issuers currently have 30 offtake installations. The gas is then transported to approximately 4 million (in the case of Southern GN) and 1.8 million (in the case of Scotland GN) supply points via pipelines, mains and service pipes. The Issuers have approximately 3,000 kilometres of high pressure transmission pipelines and 74,000 kilometres of distribution mains. The Offtakes contain instrumentation and telemetry equipment to enable remote monitoring and control of the gas flows. Each Issuer generally owns the Offtake sites in its geographic area of operation and the majority of the associated equipment, including equipment for filtration, pressure management, measurement and odorisation of gas. The Issuers are responsible for the control of gas flow at the Offtakes in their respective areas.

From each Offtake, gas enters a high pressure (“HP”) distribution system which consists of a network of steel pipes. The HP distribution system operates in a way that enables the pressure to be increased at times of low demand and reduced at times of high demand. From here, pressure regulating installations reduce the gas pressure before it is carried through an intermediate pressure (“IP”) system to major towns and some large industrial consumers. IP governors further reduce the gas pressure before it enters a medium pressure system of mains and services and is carried into smaller towns and villages. Finally, a low pressure network of pipes carries gas in the most highly populated areas and enters the consumer’s premises. The assets of the Issuers encompass the complete pipe network in their respective areas of operation from the Offtakes to the emergency control valve, which is located immediately before the gas meter in the consumer’s premises.

The customers of the Issuers comprise “shippers” for whom they transport gas either to consumers or third party pipeline systems. The level of revenue that may be received by each of the Issuers from the supply of services is governed by the Price Control (see below for more detail). This takes into account, among other factors, an assessment of each Issuer’s operating costs, capital expenditure and cost of capital.

#### *Operation and Development of the Gas Transportation Networks*

As the volume of gas conveyed through the pipe network fluctuates during the course of the day, it is critical that the Issuers are able to maintain gas supply to all parts of the system under peak local demand condition. Under their GT Licences, the Issuers are required to ensure that their networks are able to meet the volume of demand from customers in its region in a period of 24 hours which would not be expected to be exceeded more than once in 20 years known as “1-in-20” peak day demand. The annual process by which the networks are designed to meet these requirements is known as network planning. Sophisticated computer simulation techniques and network models, which are validated through comparisons with actual pressures experienced during peak demand in winter and demand forecasting techniques, are used to aid network planning.

Each Issuer is responsible for the safe and efficient remote daily operation of its gas transportation system, including diurnal storage facilities catering for daily variation in local demand (through flow control, low pressure storage and pressure management) and certain monitoring equipment.

Each Issuer is also responsible for the construction, replacement and maintenance of network assets in its network. Each Issuer has an iron mains risk programme in place which aims to reduce the risk of an incident, focussing on replacing iron mains with polyethylene pipes. The replacement work, as well as any construction work, is carried out by employees of the Issuers and contractors following industry standard procedures and gas safety management framework. Maintenance work is carried out by trained engineers and such work includes provision of a “24/7” response service to alarms and faults on the plant and equipment.

Each Issuer has an obligation to provide a continuously staffed national free telephone number for use by the public in the event of a gas escape or emergency. Following receipt of a call, the relevant Issuer is responsible for dispatching its emergency engineers to attend to any reported gas escape within specified timescales. The time taken from receipt of an emergency call to attending the site is closely monitored and reported against specified standards to the HSE and the Authority. The Issuers currently outsource operation of the call handling service to NGG under a service agreement (see “Service Agreements with NGG” below).

Following the Acquisitions, the Issuers entered into a number of new service agreements (“NSAs”) with NGG in order to provide continuity of operations. Under the NSAs, various services were provided. Each Issuer also outsourced various corporate support service activities to SSE in order to benefit from their expertise and synergies.

#### *Service Agreements with NGG*

The emergency call handling service to receive calls from the public, provide appropriate advice and instruct responses is the only remaining service agreement with NGG.

#### *Service Agreements with SSE*

Each Issuer has entered into a managed services agreement with SSE (the “MSAs”) under which SSE provides certain corporate advisory, consultancy and supervisory services for a fixed annual fee. These agreements provide the Issuers with access to the intellectual property associated with the specified consultancy services.

In addition, certain corporate services are actually performed by SSE individuals pursuant to the MSAs ensuring that the Issuers receive synergy benefits from SSE’s existing infrastructure. These services are provided on an open book basis.

### *Transfer of Group Relief*

As wholly owned subsidiaries of SGN, the Issuers will, under current UK tax legislation, be able to benefit from “group relief”. This legislation allows for the surrender of tax losses incurred by one group member company against the taxable profits of the same accounting period earned by another group member company. In the case of SGN and the Issuers, this is likely to apply to tax losses generated within SGN in respect of payments of interest on shareholder debt.

It is intended that to the extent that SGN has a loss for tax purposes in any particular accounting period, that loss will, as far as possible, be surrendered for offset against the taxable profits of each of the Issuers.

In relation to such surrenders of losses, it is further intended that payment will be made by the Issuers to SGN for the losses so surrendered at an amount equivalent to the amount of tax saved by the Issuers as a result of the loss surrender.

Amounts paid for the surrender of losses will be neither tax deductible for the Issuers nor taxable in the hands of SGN.

It is anticipated that payments will be made to coincide with the normal due dates for payment of corporation tax by the Issuers. This may include the payment for group relief by way of instalments (on dates equivalent to the corporation tax instalments regime). In such cases, the group relief (and related payments) will be calculated based on the anticipated levels of taxable profits and losses arising in the Issuers and SGN. To the extent that the finally agreed profits and losses differ from the anticipated amounts, further group relief payments may be required by the Issuers or monies may be refundable by SGN (in the event that the level of losses is lower than anticipated).

### **REGULATORY FRAMEWORK**

The supply, transportation and shipping of gas in Great Britain are the subject of the licensing and regulatory regime of the Gas Act 1986 (as amended) (“Gas Act”), the Utilities Act 2000 and the Energy Act.

#### *The Gas Act 1986 (as amended)*

Pursuant to the Gas Act, the Issuers are obliged to (i) develop and maintain an efficient and economical pipeline system; (ii) subject to (i), comply with any reasonable request, where economical to do so, to connect premises or other pipeline systems to its system and convey gas by means of that system; (iii) facilitate competition in the supply of gas; and (iv) avoid undue discrimination or undue preference in the connection of premises or other pipelines or in the terms on which it undertakes the conveyance of gas. In addition, the Issuers are subject to certain obligations in respect of connections as further described below.

#### *The GT Licences*

The Gas Act requires gas transporters (including the Issuers) to obtain a GT Licence. The Issuers each hold a GT Licence and are bound by the conditions contained therein. The GT Licences control the Issuers’ pricing methodologies (see below), services and performance standards. The GT Licence provisions can only be changed in accordance with the Gas Act.

#### *Key Aspects of the GT Licences*

Under each GT Licence, each Issuer is required to:

- comply with and operate in accordance with its GT Licence;
- take all appropriate steps to ensure that it maintains at all times an investment grade credit rating;
- not make distributions to affiliates or related undertakings in certain credit rating downgrade scenarios;

- certify to the Authority that it is compliant with certain key aspects of its GT Licence before making any dividend/other form of distribution;
- act in a manner calculated to secure that it has sufficient management, financial or operational resources to enable it to carry on its transportation business and comply with its obligations under its GT Licence and such of its obligations under the Gas Act as may apply to its transportation business;
- annually certify to the Authority that it has sufficient financial and operational resources and facilities to enable it to carry on its transportation business for a period of 12 months from the date of the certificate;
- procure from each shareholder, as its ultimate controller, and provide to the Authority a legally enforceable undertaking in its favour that it and any person which is a subsidiary of, or controlled by, such ultimate controller will not cause it to breach any obligations under the Gas Act or the GT Licence;
- submit cost and revenue reporting information to the Authority annually and to notify the Authority immediately if there is an error in the information provided or in the calculations is identified; and
- have in place corporate governance and assurance procedures to ensure that information collected and reported to the Authority is in all material aspects correct, complete and provided timely. This includes a requirement for them to keep these arrangements and systems under review and to allow the Authority to review these from time to time in accordance with current GT Licence conditions.

Under each GT Licence, each Issuer is restricted from:

- conducting any business other than (i) transportation business; (ii) metering or meter reading business; and (iii) a de minimis amount of non-transportation business;
- disposing of, or relinquishing operational control over, any transportation assets;
- creating any security or other form of encumbrance or undertaking any indebtedness or entering into any guarantee or any obligation otherwise than (i) on an arm's length basis; (ii) on normal commercial terms; and (iii) for a permitted purpose;
- transferring, leasing, licensing or lending any sum, asset, right or benefit to any affiliate or related undertaking other than in accordance with the terms of its GT Licence;
- entering into any agreement or incurring any commitment incorporating a cross-default obligation; and
- giving cross-subsidies to, or receiving cross subsidies from, any affiliates or related undertaking.

In certain circumstances, written consent can be obtained from the Authority by each Issuer to, for example, incur indebtedness or enter into cross-default obligations, notwithstanding the restrictions in its GT Licence.

### ***Enforcement***

In enforcing the conditions of the GT Licences and other obligations imposed by the Gas Act, the Authority can make legally enforceable orders, which may include monetary penalties, requiring compliance and which, if breached, could result in liability in damages to third parties or, ultimately, revocation of the GT Licences. The maximum monetary penalty that can be imposed is 10 per cent. of the turnover of the relevant Issuer.

### ***Uniform Network Code***

The Issuers are party to the Uniform Network Code ("UNC") along with the other DNs and shippers. The UNC determines transportation arrangements between the parties, some functions of which are facilitated

by Xoserve Limited (“Xoserve”), such as supply point administration services. Xoserve is currently owned jointly by the Issuers and the other DNs (including NGG).

## **PRICE CONTROL**

Price controls are established by agreement between the Authority and the Issuers, the current RIIO-GDI price control (“GDI”) commenced on 1 April 2013 and runs to 31 March 2021. RIIO means the following: Revenue equals Incentives plus Innovation plus outputs. The Issuers are subject to the Current Control (“GD1”).

### ***Allowed Revenue***

In general terms, the Issuers’ annual regulated revenue is derived from the following principal “building blocks”:

- a return on each Issuer’s regulatory asset value (“RAV”) which is calculated as the regulatory weighted average cost of capital (“WACC”) multiplied by the estimated average RAV for the year. During the Current Control, all distribution networks (including the Issuers) are allowed to earn an annual post-tax real return on RAV which, at April 2014, is 3.74 per cent. based on the relevant prevailing indexed cost of debt;
- an allowance for the set proportion of total operating costs (“totex”) deemed to be operating expenditure;
- a symmetrical reward or penalty for actual performance achieved by the Issuer across a number of licence incentive mechanisms including leakage and customer service;
- the Issuers’ prescribed rates, NTS Exit capacity costs, plus Issuers’ GT Licence fees and other pass through costs; and
- regulatory depreciation and pension funding costs.

The cost of equity and gearing are fixed over the eight years at 6.7 per cent. (post tax real) and 65 per cent. respectively. However, the return will vary each year due to the arrangements for funding the cost of debt which will be based on the iBoxx ten year trailing average each year. This element is funded on a pre-tax real basis which for 2014/15 is 2.72 per cent. This gives an overall “vanilla” WACC of 4.1 per cent. but as described above, this may be subject to cost of debt fluctuations during the eight year period. The figures described in “Allowed Revenue” above are adjusted for RPI in the UK, as determined by the Office for National Statistics (a UK government agency responsible for deriving national statistics).

### ***Regulated Asset Value***

Both Issuers were allocated a RAV associated with their respective distribution assets prior to Network Sale in 2005 as determined by the Authority. For determining allowed revenue, a RAV was established by the Authority for the Current Control which is rolled forward based on regulatory depreciation and the annual capitalisation rate applicable to the respective replacement, operational and capital expenditure categories.

The RAV will be retrospectively updated annually based on actual totex expenditure and the Issuers understand Ofgem will publish this periodically. At 31 March 2014 the RAV of Southern GN was estimated to be £3,368 million, and the RAV of Scotland GN was estimated to be £1,514 million.

### ***Demand Forecasting***

Demand forecasts are used to establish the level of capital expenditure required to meet the peak demand loads (consistent with the Issuers’ licence output obligations to have sufficient capacity to meet the peak demand condition which may be expected to occur once in every 20 years). The Issuers either employ directly, or secure under contract, qualified personnel to prepare the demand forecasts that are required by the Issuers.



### ***Collected Revenues***

Each Issuer's maximum allowed revenue is dependent upon a number of factors that are not known in advance, for example, the capacity required from customers. Therefore, the maximum allowed annual revenue is not known until the end of the relevant period. However, transportation tariffs are set on a prospective basis based on forecast variables, so actual collected revenue in any one year may differ from the maximum allowed annual revenue. Differences between the maximum allowed annual revenue and the collected revenue are carried forward two regulatory years, with an adjustment for interest.

### ***Non Formula Revenues***

Revenues for some services are not regulated by the price control formula. These include, for example, third party charges for certain metering services provided and for the maintenance of an interconnector. Separately, the GT Licences restrict the extent to which the Issuers can engage in activities that are not related to gas transportation to no more than 2.5 per cent. of each Issuer's turnover, unless the activity is deemed to be within the definition of "permitted purpose" or the Authority otherwise consents.

### ***Updates regarding GDI***

A number of updates from the previous price controls have been addressed in the Current Control. These are as follows:

- widening the scope of benchmarking in setting allowances and rewarding frontier performance;
- dealing with all controllable overspends and under spends through the introduction of a strong Totex Incentive Mechanism, introducing symmetric sharing of performance with customers;
- matching outputs required under the licence with benchmarked allowed expenditure;
- removing most annual output targets and replacing with year eight objectives;
- continuation of previous decisions to base almost all allowed revenue on capacity and not throughput;
- continuation of pension principles;
- pass through of shrinkage gas and NTS Exit prices;
- introduction and continuation of several incentives:
  - leakage levels;
  - innovation funding;
  - customer service performance;
  - discretionary rewards for sustainable developments; and
  - exit capacity performance;
- dealing with uncertain costs via price control reopeners and revenue adjustments:
  - Traffic Management Act costs;
  - connection of new large loads;
  - Smart Metering programme roll out;
  - changes to tax rules; and

- site security costs; and
- moving from a five year to an eight year control period.

On the whole, the Issuers believe that these changes have provided a much higher degree of regulatory transparency.

## **COMPETITION LAW**

The Authority has concurrent powers with other regulators who have taken over the responsibilities of the Office of Fair Trading, including the Competition and Markets Authority (“CMA”) and the Financial conduct Authority to:

- prevent or prosecute anti-competitive practices in the natural gas sector under the Competition Act 1998;
- declare an agreement to be anti-competitive and thus null and void and can also impose financial penalties of up to 10 per cent. of turnover on infringing undertakings. The Competition Act 1998 prohibits agreements which may prevent, restrict or distort competition within the UK and the abuse of a dominant position in a market in the UK; and
- make a reference to the CMA where there are reasonable grounds for suspecting anti-competitive behaviour but there has been no obvious breach of the prohibitions under the Competition Act 1998. Should the CMA decide that there has been an adverse effect on competition, it has the power to take action to remedy, mitigate or terminate the anti-competitive activity.

## **CONNECTIONS**

The Gas Act and the GT Licences impose duties on the Issuers in relation to gas connections. These include the duty to provide connections to premises where it is economical to do so. For premises within 23 metres of a main, the Issuers are obliged to connect premises and provide and install assets necessary for the connection of the premises. The Issuers can charge for providing this service although they must pay the costs of installing the first 10 metres of pipe in the public highway for domestic connections.

The Issuers are subject to standards of performance in relation to gas connections under the Gas (Standards of Performance) Regulations 2005 (as amended) and the GT Licences. Under the GT Licences, the Issuers are required to meet a 90 per cent. performance standard. These include target deadlines in respect of the provision of quotations, accuracy of quotations, completion of connections, replies to land enquiries and provision of dates for commencement and completion of works. Where standards of performance under the Gas (Standards of Performance) Regulations 2005 (as amended) are not met, the Issuers must make a payment to the affected party, subject to certain exemptions. The Issuers must also provide a scheme through which customers can challenge the accuracy of quotations, and, in the event that an Issuer has provided an inaccurate quotation, it must adjust the charge to the amount due under an accurate quotation. There is also an obligation to provide specified connection information to the Authority and undertake annual audits in respect of the provision of connection services.

## **STANDARDS OF SERVICE**

In addition to the connections standards of service described above, the Gas (Standards of Performance) Regulations 2005 (as amended) require the Issuers to meet predefined targets in respect of the restoration of domestic customers’ supplies after an unplanned interruption, reinstatement works and provision of alternative heating and cooking facilities to priority customers, advance notice of planned interruptions and responding to complaints. Failure to meet these standards results in the Issuers making a payment to the affected party. For all Guaranteed Standards of Performance failures, further payments are required for any delay in making the initial payment.

The GT Licences also require the Issuers (in 97 per cent. of cases) to attend an uncontrolled or controlled gas escape or gas emergency within one or two hours, respectively. They are also required to meet certain standards of performance when responding to telephone calls.

In October 2008 a compulsory Energy Ombudsman scheme was introduced for all energy networks and supply companies. Under the scheme, dissatisfied customers can turn to the Ombudsman where the Issuers' own complaint procedure has failed to find a mutually satisfactory resolution. With the exception of complaints in respect of connections costs (see above) the findings of the Ombudsman are final and can require the Issuers to take a number of actions which could include making compensation payments.

Under GDI a new Customer Service mechanism was introduced into the GT Licences. This provides an incentive to the licensee to improve Customer satisfaction with the services provided under its licence, minimise complaints and manage its response to such, and, increase effective engagement with Stakeholders. This is a symmetric mechanism rewarding networks for improved performance and penalising when standards fall.

## **METERING AND METER READING SERVICES**

The GT Licences include an obligation to comply with any reasonable request by a supplier to provide a domestic gas meter. The GT Licences provide details of certain terms that must be provided by the Issuers, to a supplier before attending to a request from the supplier in relation to metering and meter reading services. These terms relate to the date by which the services shall be provided, the charges to be paid and such other detailed terms in respect of the services required as are appropriate for the purpose of the agreement.

The Issuers are required to prepare statements setting out the basis upon which charges for meter reading services will be made and information relating to the other terms to enable any supplier to make a reasonable estimate of the charges he would become liable for and the other terms likely to have a material impact on his business. The statements must include a schedule of charges for the services and an explanation of the methods by which and the principles on which such charges will be calculated. Copies of the statements must be provided to the Authority. The Issuers must also provide copies of such statements to any suppliers on request, but they may make a charge for this based on the Authority's estimate of reasonable costs of providing such a statement. In accordance with the provision within their respective GT Licences, the Issuers have been granted consent by the Authority which relieves them of the majority of the meter reading obligations for non-daily metered supply points.

The charges for the provision of certain metering services are currently capped by the Authority.

## **HEALTH AND SAFETY REGULATION**

### ***Gas Safety Management Regulations 1996***

The Gas Safety Management Regulations 1996 are concerned with the safe management of natural gas flow through pipelines supplying customers and require the Issuers to operate in accordance with a safety case which has been accepted by the HSE.

The Issuers are required to keep their safety cases up-to-date and review them at least once every three years. Any proposed material changes must be accepted by the HSE.

The Issuers have combined their safety cases within a single document and management system, although for legal purposes they remain as separate safety cases. The latest version of the combined safety case was accepted by HSE in March 2011, which included material changes to in respect of revised emergency management and gas interruption arrangements. The safety cases have subsequently been reviewed and updated for non-material changes in September 2011 and July 2013.

### ***The Pipelines Safety Regulations 1996***

The Issuers are required to comply with the requirements of the Pipelines Safety Regulations 1996, which place a number of obligations on pipeline operations relating to safety in the design, construction, installation, operation, maintenance and decommissioning of pipelines.

A significant proportion of the Issuers' networks were constructed from cast iron and ductile iron. The HSE and the gas industry have identified that these pipes are at risk of failure and could result in hazardous conditions should a gas escape occur. In 2011, the HSE undertook a review of the programme to replace at

risk iron mains and a new 3 tier approach was implemented from April 2013, which places greater emphasis on replacing mains that present the greatest risk (Tier 1). Annual workloads are set to achieve the replacement of all Tier 1 mains by 2032.

***Public Reported Gas Escapes***

Each Issuer is obliged to provide certain emergency services under the Gas Act and under its GT Licence in the event of a gas leak occurring in its transportation network and to provide a first response in the event of a gas leak occurring in the NTS within its area of operation.

There is no government statute that indemnifies the Issuers from claims that might result from losses due to actions or inactions by the Issuers in responding to gas escapes. Failure to comply with the relevant health and safety legislation can result in fines and/or criminal charges in addition to claims for losses from affected third parties.

## MANAGEMENT

The Boards of Directors of Southern GN and Scotland GN comprise the same members. The Directors of each Issuer and their principal activities outside the Group are as follows:

<u>Name</u>	<u>Position</u>	<u>Principal Outside Activities</u>
Gregor Alexander	Director	Finance Director, SSE plc
Natalie Flageul	Director	Director of Metering for SSE plc
Robert McDonald	Director	Managing Director, Corporate and Business Services at SSE plc
John McManus	Director	Senior Advisor, Borealis Infrastructure
James McPhillimy	Director	Managing Director, Enterprise, SSE plc
Sebastien Sherman	Director	Executive Managing Director, Borealis Infrastructure
Olivia Steedman	Director	Vice President (Head of Asset Management), Ontario Teachers' Pension Plan Board
Paul Jeffery	Non-executive Director	Non-executive Director of UK Power Networks
Graham Juggins	Non-executive Director	Former Director of Human Resources at SSE plc

The business address of the Directors and the senior management team is St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ.

Each of the executive Directors is an employee of a shareholder or an affiliate of a shareholder of SGN. Conflicts of interest may arise for the directors of the Issuers who are also directors of or hold a management position with SSE plc in respect of matters relating to the Service Agreements entered into with SSE plc (see "Business Description – Service Agreements" for further details). To avoid any abuse of control of the Issuers in such circumstances, the shareholders of SGN have entered into the Shareholders' Agreement governing the exercise of their rights in SGN where such a conflict of interest arises and the Directors in respect of which a conflict of interest arises are obliged to declare such conflict of interest and exclude themselves from the relevant discussions. As at the date of this Prospectus, other than as disclosed above, the Directors do not have any other conflicts of interest between any duties to the Issuers and their private interests or other duties.

Answering directly to the Board is John Morea, Chief Executive Officer, who is supported by Chris Brook, Chief Financial Officer and an executive management team.

### **John Morea, Chief Executive Officer**

John Morea joined SGN as Chief Operating Officer in May 2005 from SSE plc where he was Director of Distribution having responsibility for their electricity distribution and transmission assets. John became the first Chief Executive Officer of SGN in 2008 and has had extensive experience of energy networks, managing business change and delivering significant improvements in business efficiency while ensuring safe operation. John has over 30 years' experience within the utility sector and is a member of the Institute of Engineering and Technology and a companion of the Institute of Gas Engineers and Managers ("IGEM"). John is an incorporate engineer and holds a BSc (Hons) and an MBA. He is also a non-executive director of Associated British Ports.

### **Chris Brook, Chief Financial Officer**

Chris Brook joined SGN in September 2008 as Chief Financial Officer. He spent the previous 11 years with United Utilities where he was Finance Director of United Utilities Contract Solutions between 2003 and 2007, the business responsible for all infrastructure non-regulated activities. From 2007, Chris was Finance Director of United Utilities Water plc, the regulated water business, before joining SGN. Chris is a Chartered Accountant having trained and qualified with Touche Ross.

Below the CEO, there is a combined senior management team which is responsible for managing the operations of the business of both Issuers. Details are as follows:

**Gary Barnes, Director of Corporate Services**

Gary Barnes joined SGN in 2008. His previous role was Group Safety, Health & Environment Manager in SSE, where his responsibilities included defining and implementing SHE strategy and ensuring that an effective management system was maintained and implemented. Prior to that, he was responsible for process safety in gas storage and power generation in SSE. He joined SSE from SWALEC Gas in 2000, where he held the post of gas safety manager. He is a member of IGEM and the Institute of Directors.

**Paul Denniff, Network Director**

Paul Denniff is a chartered mechanical and gas engineer and fellow of both the Institution of Mechanical Engineers (“IMEchE”) and IGEM. He joined British Gas in 1990 having worked for the Central Electricity Generating Board and AMEC beforehand. He has a wealth of knowledge and experience in running a gas network covering transmission and distribution operations, including strategic network planning, operations planning, asset management, procurement and contract management and change management. He was appointed the role of Director of Customer Service and Engineering Support when SGN was formed in 2005. Paul was appointed as Network Director in late 2008. As well as undertaking the role of Network Director, he is also delivering a programme to implement the new regulatory framework within the business. He has an MBA and is a council and trustee member of IGEM.

**Denis Kerby, Director of Corporate Communications**

Denis Kerby joined the energy industry in 1981. He was Southern Electric’s Investor and Media Relations manager before moving to Scotland to take on the role for SSE. He joined SGN in August 2008 and is responsible for media relations, external and internal communications, social media and public affairs. He is a qualified Company Secretary and a member of the ICSA.

**John Lobban, Managing Director, Scotland**

John Lobban is a Chartered Gas Engineer who joined British Gas in 1983. He has extensive experience in gas distribution including: Network Planning, Connections, Commercial, Contract Management and Engineering Operations. He also undertook the role as Gas Distribution Network Sales Implementation Manager (Scotland) during the network sale process from NGG. He has extensive experience in managing business change and delivering significant efficiency improvements. John is a Chartered member of the IGEM, and a member of the Institute of Directors.

**Andrew Quail, Director of Development and Technology**

Andrew Quail joined SGN in November 2008. He has previously worked within a number of external organisations including; Centrica, BT, Capgemini Consulting, Tata Consulting, The Foreign and Commonwealth Office and Thompson Travel (TUI). He has overseen the successful delivery of SGN’s Back Office replacement as well as being part of the initial setup of SGN, where he was the Programme Manager for SGN’s Front Office Managed Services Agreement (“FOMSA”) migration from NGG on behalf of TCS. Andrew was appointed as IT Director in September 2010.

**Peter Webster, Director of Operations (Southern)**

Peter Webster joined Southern GN in July 2005 from SSE plc where he was Head of Operations (Southern). He has extensive experience of electricity distribution, managing business change and delivering significant improvements in business efficiency. He has twice taken distribution companies to the efficiency frontier with Southern Electric in 1999 and SSE plc in 2004. Peter has over 30 years’ experience within the electricity industry and holds an honours degree in Electrical and Electronic Engineering. He is a companion of IGEM.

**Kirsty Richardson, Head of Employee Communications and Engagement**

Kirsty Richardson joined working in communications and latterly on the National Grid sale process until

2005. Kirsty is responsible for strategic communication, culture and behaviour change, employee engagement and reward and recognition. Prior to 2001, she worked with a number of external companies including Serco plc and PSA. She graduated from Napier University with an MSc in Multimedia Technology and a BA (hons) in Business Studies. She is a qualified practitioner in change management (APMG) and PPA, and is a member of the Chartered Management Institute.

#### **Steve Piggott, Group Head of HR**

Steve joined the energy industry in 1981 as a graduate trainee with a BA in Economics. He held a number of managerial posts with Southern Electric and then SSE before joining SGN as Head of HR in May 2008. His responsibilities include running the national negotiating and consultation bodies, HR policy, payroll and industrial relations.

#### **Mike Bedford, Director of Financial Operations**

Mike Bedford joined British Gas in 1988 and is a Chartered Management Accountant. After joining NGG (formerly Transco) in 1995 he held roles within both Group Finance and NGG Central Finance with specific responsibilities for investment policy and providing financial support to the executive management team, including key strategic initiatives. He was a member of the SGN Price Control Team for both the Current Control (RIIO) and the previous Control (GDPCR1). He has a BSc (Hons) in Computer Studies.

As at the date of this Prospectus, the above-mentioned CEO, CFO and senior management team do not have any potential conflicts of interest between any duties to the Issuers and their private interests or other duties.

#### **EMPLOYEES**

As at 31 March 2014, Southern GN had 855 full time equivalent employees and Scotland GN had 571 full time equivalent employees. These figures reflect the number of employees of the Issuers and not those directly employed by any other member of the Group. In addition to this, another Group company (SGN Contracting Ltd) had 2,194 full time equivalent employees who provide services to the Issuers.

#### **MATERIAL CONTRACTS**

Save as described below, no contract (other than contracts entered into in the ordinary course of business) have been entered into which could result in any member of the Group being under an obligation or entitlement that is material to each Issuer's ability to meet its obligation to holders of the Notes:

##### *(a) Interest Rate Swap Positions*

In August 2004, on reaching agreement to buy the Issuers from NGG, SGN entered into, on behalf of each Issuer, various interest rate swap transactions (the "Original Swaps") to hedge against the risk of UK interest rates increasing prior to the completion of the permanent refinancing of the Acquisitions. The Original Swaps were novated to the Issuers with effect from 4 October 2005, and were effectively closed out by transacting offsetting swaps (the "Mirror Swaps") at the time of pricing the bonds which were issued to refinance the business.

The effect of the Original Swaps was to fix the rate of interest payable by each Issuer in respect of a substantial portion of their respective anticipated debt obligations over an average period of approximately 15 years at rates of interest prevalent in the UK market in August 2004. Since UK interest rates fell in the period between August 2004 and completion of SGN's permanent refinancing in October 2005, these Original Swaps were out-of-the-money to the Issuers at the time of the refinancing. By transacting the Mirror Swaps, this out-of-the-money position became fixed and the resultant cost will be payable by the Issuers over the remaining life of each swap tranche. Importantly, however, it should be noted that the Issuers were able to fund their debt obligations at the lower interest rates prevailing in October 2005 and the benefit of so doing more than offsets the liability under the net Swaps position.

The amount that each Issuer would be required to pay to (or receive from) the counterparty to these Swaps on a net present value basis changes daily, reflecting movements in the UK interest rates. Since, as described above, the Swaps provide a hedge position it could be potentially misleading to state a point in

time approximation of value which may be materially different from that at the time that Notes are issued under the Programme.

*(b) Revolving Credit Facility Agreements and EIB Finance Contracts*

On 29 July 2014, Southern GN entered into an amended and restated credit facility agreement with certain banks in an aggregate amount of £250 million and Scotland GN entered into an amended and restated credit facility agreement with the same banks in an aggregate amount of £100 million.

In addition:

- (i) on 20 September 2010, Southern GN entered into a £50,000,000 Finance Contract with the European Investment Bank (the “EIB”);
- (ii) on 20 September 2010, Scotland GN entered into a £75,000,000 Finance Contract with the EIB;
- (iii) on 23 February 2011, Southern GN entered into a £50,000,000 Finance Contract with the EIB;
- (iv) on 23 February 2011, Scotland GN entered into a £25,000,000 Finance Contract with the EIB;
- (v) on 9 March 2012, Scotland GN entered into a £50,000,000 Finance Contract with the EIB;
- (vi) on 14 October 2014, Southern GN entered into a £300,000,000 Finance Contract with the EIB; and
- (vii) on 14 October 2014, Scotland GN entered into a £100,000,000 Finance Contract with the EIB.



## UNITED KINGDOM TAXATION

*The following is a general description certain UK withholding obligations and reporting requirements relating to the Notes based on current United Kingdom tax law and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates to the position of persons who are the absolute beneficial owners of Notes and some aspects do not apply to certain classes of taxpayer (such as dealers and beneficial owners who are, or who are EU permanent establishments of, EU associated companies of the Issuer and/or Noteholders who are connected with the Issuer for relevant tax purposes). Prospective Noteholders who may be subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice.*

### **UK Withholding Tax on UK source interest**

The Notes will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 (the “Act”) as long as they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Act. In the case of Notes to be traded on the London Stock Exchange, which is a recognised stock exchange, this condition will be satisfied if the Notes are admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Accordingly, payments of interest on the Notes may be without withholding on account of UK income tax provided the Notes remain so listed at the time of payment.

In other cases an amount must be withheld on account of UK income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary on application to HM Revenue & Customs under an applicable double taxation treaty, and except that the withholding obligation is disapplied (the “UK Reasonable Belief Exemption”) in respect of payments to Noteholders where the Issuer reasonably believes that the person beneficially entitled to the income in respect of which the payment is made is either a UK resident company or a non UK resident company carrying on a trade in the UK through a permanent establishment which is within the charge to UK corporation tax, or falls within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless, in each case, HM Revenue & Customs directs otherwise).

Interest on Notes may also be paid without withholding on account of UK income tax when the maturity date of the Notes is less than 365 days from the date of issue and the Notes are not issued under arrangements the effect of which is to render such Notes part of a borrowing with a total term of a year or more.

### **Provision of Information by United Kingdom Paying Agent**

HM Revenue & Customs has powers to obtain information and documents relating to Notes, including in relation to issues of and other transactions in Notes, interest, payments treated as interest and other payments derived from Notes. This may include details of the beneficial owners of the Notes, of the persons for whom Notes are held and of the persons to whom payments derived from Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of Notes, persons who make, receive or are entitled to receive payments derived from Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HM Revenue & Customs may be provided to tax authorities in other jurisdictions.

See also the section entitled “European Union Savings Income Directive” below which describes obligations to provide reports of or withhold tax from payments of savings income under Council Directive 2003/48/EC.

### **European Union Savings Tax Directive**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also apply a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purposes of the Directive. This approach may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding tax in relation to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will then commence automatic information exchange under the Directive. The transitional period will end after agreement on exchange of information is reached between the EU and certain non-EU states.

A number of non-EU countries and territories, including Switzerland, have adopted equivalent measures (a withholding system in the case of Switzerland).

### **The proposed financial transactions tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “Commission’s Proposal”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “participating Member States”).

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

### **Summary of Programme Agreement**

Subject to the terms and on the conditions contained in the Programme Agreement dated 17 October 2014 (the “Programme Agreement”) between the Issuers, the Programme Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Programme Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Programme Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuers through the Dealers, acting as agent of the relevant Issuer. The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers. If Notes are admitted to trading on the Regulated Market of the London Stock Exchange, the minimum subscription size shall be £100,000. Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency on the relevant Issue Date as agreed between the relevant Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue. Subject thereto, Notes will be issued in such denominations as may be specified in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

If an Issuer accepts an offer to purchase Notes in relation a syndicated transaction, the terms of any such agreement between the Issuer and two or more Dealers shall be set out in a subscription agreement. If an Issuer accepts an offer to purchase Notes in relation to a non-syndicated transaction, the relevant Dealer shall send the Purchase Information (meaning, in relation to any such Tranche the terms of such Notes and of their issue agreed between the Issuer and such Dealer, the “Purchase Information”) to the Issuer by telephone or fax (and, if by telephone or fax, confirm it in writing within one Business Day). The relevant Dealer will simultaneously send the Purchase Information to the Principal Paying Agent by telephone, fax or other acceptable means. The relevant Issuer shall also confirm the Purchase Information by fax to the relevant Dealer and the Principal Paying Agent within one Business Day of receiving it from such Dealer. In relation to both syndicated and non-syndicated transactions, dealing will begin as agreed between the relevant Issuer and the relevant Dealer(s), which may or may not be before such notification is made.

The relevant Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by such Dealer. The Issuers have agreed to reimburse the Arranger for its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

Each Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Programme Agreement entitles the Dealers to terminate any agreement that they make to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### **Selling Restrictions**

#### *United States*

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act (“Regulation S”) or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented that it has offered and sold, and agreed that it will offer and sell Notes of any Series (1) as part of their distribution at any time and (2) otherwise until 40 days after completion of the distribution of an identifiable tranche of which such Notes are a part, as determined, and certified to the relevant Issuer and each Relevant Dealer, by the Principal Paying Agent or, in the case of a Syndicated Issue, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, each Dealer has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and shall comply with the offering restrictions requirement of Regulation S. Each Dealer and its affiliates has also agreed to notify the Principal Paying Agent or, in the case of a Syndicated Issue, the Lead Manager, when it has completed the

distribution of its portion of the Notes of any identifiable tranche so that the Principal Paying Agent or, in the case of a Syndicated Issue, the Lead Manager may determine the completion of the distribution of all Notes of that tranche and notify the other Relevant Dealers of the end of the distribution compliance period. Each Dealer and its affiliates has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

“The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of an identifiable tranche of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.”

Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has represented it has not entered and agreed that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the relevant Issuer.

In addition, unless the Purchase Information or the subscription agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is “not applicable”, each Dealer has represented and agreed in relation to each Tranche of Bearer Notes:

- (a) except to the extent permitted under U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (the “D Rules”):
  - it has not offered or sold, and during the restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person
  - it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period
- (b) it has and agrees that throughout the restricted period it shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules
- (c) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treas. Reg. § 1.163- 5(c)(2)(i)(D)(6)
- (d) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in Clauses (a), (b) and (c) of this paragraph on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in Clauses (a), (b) and (c) of this paragraph and
  - it shall obtain for the benefit of the relevant Issuer the representations and agreements contained in Clauses (a), (b), (c) and (d) of this paragraph from any person other than its affiliate with whom it enters into a written contract, as defined in U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(4), for the offer or sale during the restricted period of Notes in bearer form.

Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of

such tranche of Notes) may violate the registration requirements of the Securities Act.

Notes in bearer form with a maturity of one year or less may be subject to special rules, which shall be described in the applicable Final Terms (or, in the case of Exempt Notes, the applicable Pricing Supplement).

Each issuance of RPI Linked Notes shall be subject to such additional United States selling restrictions the Relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional United States selling restrictions.

### ***Public Offer Selling Restrictions under the Prospectus Directive***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to legal entities which are qualified investors as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### ***United Kingdom***

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that:

- (a) in relation to Notes having a maturity of less than one year from the date of their issue (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (b) it has not offered or sold and will not offer or sell any such Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business, where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and it will only communicate or cause to

be communicated any 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 any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and

- (c) it has complied with and shall comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”) and disclosure under the FIEA has not been, and will not be, made with respect to the Notes. Accordingly, each of the Dealers has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not, directly or indirectly, offered, sold, resold or otherwise transferred and shall not, directly or indirectly, offer, sell, resell or otherwise transfer any Notes in Japan or to, or for the benefit of, a resident of Japan or to others for re-offering, resale or other transfer directly or indirectly in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

### ***General***

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material or any Final Terms (or Pricing Supplement in the case of Exempt Notes), in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus, any other offering material.

### **Transfer Restrictions**

Each purchaser of Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period (as used in “Subscription and Sale”), by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the relevant Issuer or a person acting on behalf of such an affiliate.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that such Notes, unless otherwise determined by the relevant Issuer in accordance with applicable law, will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 AS AMENDED, (THE “SECURITIES ACT”) THIS NOTE IS BEING OFFERED OUTSIDE THE UNITED STATES AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (AS THOSE TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT.”

- (4) It understands that the relevant Issuer, the Registrar, the Dealers and their affiliates, and others will

rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

- (5) It understands that Notes in registered form offered in reliance on Regulation S will be represented by a Global Certificate. Prior to the expiration of the distribution compliance period, before any interest in a Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Global Certificate of the same Series, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

## FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes under the Programme.

Final Terms dated [ ]

[SOUTHERN GAS NETWORKS PLC/SCOTLAND GAS NETWORKS PLC]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £5,000,000,000 Euro Medium Term Note Programme**

### PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated 17 October 2014 [and the supplement[s] to it dated [ ] [and [ ]]], including all documents incorporated by reference, which [together] constitute[s] a base prospectus for the purposes of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus is [and [each of] the supplement[s] are] available for viewing on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “Conditions”) set forth in the Prospectus dated [ ] which are incorporated by reference in the Prospectus dated 17 October 2014. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area (the “Prospectus Directive”) and must be read in conjunction with the Prospectus dated 17 October 2014 [and the supplement[s] to it dated [ ] [and [ ]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”), including the Conditions and any other documents incorporated by reference in the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus is available for viewing on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.]

- |    |       |  |  |
|----|-------|--|--|
| 1. | (i)   | Issuer:  | [Southern Gas Networks plc/Scotland Gas Networks plc]  |
| 2. | (i)   | Series Number:   | [ ]  |
|    | (ii)  | Tranche Number:  | [ ]  |
|    | (iii) | Date on which the Notes will be consolidated and form a single Series: | [Not Applicable]/[The Notes shall be consolidated, form a single Series and be interchangeable for trading purposes with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about [ ]]] |
| 3. |       | Specified Currency:  | [ ]  |
| 4. |       | Aggregate Nominal Amount of Notes:                                     | [ ]  |



- (i) Series: [ ]
- (ii) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate  
Nominal Amount [plus accrued interest from  
[ ]]
6. (i) Specified Denominations: [ ][and integral multiples of [ ] in excess  
thereof up to and including [ ]]. Definitive  
Notes will not be issued in denominations in  
excess of [ ]
- (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]
- (ii) Interest Commencement  
Date: [ ]/[Issue Date]/[Not Applicable]
8. Maturity Date: [ ]/[Interest Payment Date falling in or nearest  
to [ ]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/LIBID/LIMEAN/EURIBOR] +/-  
[ ] per cent. Floating Rate]  
[Zero Coupon]  
[RPI Linked Interest]
10. Redemption/Payment Basis: Subject to any purchase and cancellation or  
early redemption, the Notes will be redeemed on  
the Maturity Date at [ ] per cent. of their  
nominal amount/[par]
11. Change of Interest or  
Redemption/Payment Basis: [ ]/[Not Applicable]
12. Call Options: [Applicable]/[Not Applicable]  
[Issuer Call]  
[Issuer Maturity Call]  
[See paragraphs 18 and 19 below]
13. Date [Board] approval for issuance of  
Notes obtained: [ ]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable  
[annually/semi-annually/quarterly/monthly] in  
arrear]
- (ii) Interest Payment Date(s): [ ] [ ] and [ ] in each year up to and  
including the Maturity Date [adjusted in  
accordance with the [Following Business Day  
Convention]/[Modified Following Business Day  
Convention]][[adjusted]/[no adjustment] for  
period end dates]
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount/[Not Applicable]
- (iv) Broken Amount(s): [ ] per Calculation Amount, payable on the  
Interest Payment Date falling [in/on] [ ]/[Not  
Applicable]

	(v)	Day Count Fraction:	[Actual/Actual/Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Note Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
	(vi)	Determination Dates:	[[ ] in each year]/[Not Applicable] [Applicable/Not Applicable]
15.		<b>Floating Rate Note Provisions</b>	
	(i)	Interest Period(s):	[ ]
	(ii)	Specified Interest Payment Dates:	[ ]
	(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][adjusted]/[no adjustment] for period end dates
	(iv)	Business Centre(s):	[ ]
	(v)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
	(vi)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent):	[ ]
	(vii)	Screen Rate Determination:	[Applicable][Not Applicable]
		— Reference Rate:	[LIBOR/LIBID/LIMEAN/EURIBOR]
		— Interest Determination Date(s):	[ ]
		— Relevant Screen Page:	[ ]
	(viii)	ISDA Determination:	[Applicable][Not Applicable]
		— Floating Rate Option:	[ ]
		— Designated Maturity:	[ ]
		— Reset Date:	[ ]
	(ix)	Linear Interpolation:	[Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
	(x)	Margin(s):	[+/-][ ] per cent. per annum/[Not Applicable]
	(xi)	Minimum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
	(xii)	Maximum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
	(xiii)	Day Count Fraction:	[Actual/Actual/Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Note Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]

16. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (i) [Amortisation/Accrual] Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
- (iii) Day Count Fraction in relation to Early Redemption Amounts: Actual/Actual/Actual/Actual (ISDA)  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360/360/360/Note Basis]  
[30E/360/Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual (ICMA)]
17. **RPI Linked Interest Note** [Applicable/Not Applicable]
- (i) Rate of interest: [ ] per cent. per annum][Not Applicable]
- (ii) Name and address of Calculation Agent (if any): [ ]
- (iii) Party responsible for calculating the Rate of Interest and/or Interest Amount (if not, or in addition to, the Principal Paying Agent): [ ]
- (iv) Determination Date(s): [ ]
- (v) Provisions for determining Coupon where calculation by reference to Index is impossible or impracticable or otherwise disrupted: As described in Condition 6
- (vi) Interest or calculation period(s): [ ]
- (vii) Specified Interest Payment Dates: [ ]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (ix) Business Centre(s): [ ]
- (x) Minimum Rate of Interest: [ ] per cent. per annum/[Not Applicable]
- (xi) Maximum Rate of Interest: [ ] per cent. per annum/[Not Applicable]
- (xii) Day Count Fraction: Actual/Actual/Actual/Actual (ISDA)  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360/360/360/Note Basis]  
[30E/360/Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual (ICMA)]
- (xiii) Minimum Indexation Factor: [Not Applicable/[ ]]
- (xiv) Maximum Indexation Factor: [Not Applicable/[ ]]
- (xv) Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor: [ ]
- (xvi) Base Index Figure: [ ]

- (xvii) Index or Index Figure: [3 months lag/8 months lag]  
(xviii) Reference Gilt: [ ]

#### PROVISIONS RELATING TO REDEMPTION

18. **Issuer Maturity Call** [Applicable/Not Applicable]  
Notice Periods: Minimum Period: [15] days  
Maximum Period: [30] days
19. **Issuer Call** [Applicable/Not Applicable]  
(i) Optional Redemption Date(s): [ ] [at any time that is more than 90 days prior to the Maturity Date]  
(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Calculation Amount  
(iii) If redeemable in part:  
(a) Minimum Redemption Amount: [ ] per Calculation Amount/[Not Applicable]  
(b) Maximum Redemption Amount: [ ] per Calculation Amount/[Not Applicable]  
(iv) Notice period: Minimum Period: [15] days  
Maximum Period: [30] days
20. **Final Redemption Amount** [ ] [Par] per Calculation Amount
21. **Early Redemption Amount**  
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption: [ ] per Calculation Amount

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]  
[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice]  
[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]  
[Registered Notes]
23. [New Global Note][New Safekeeping Structure]: [Yes][No]
24. Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/[ ]]
25. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]

**THIRD PARTY INFORMATION**

[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ] no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: -----  
Duly authorised

## PART B — OTHER INFORMATION

### 1. LISTING

- (i) Admission to trading: [Application has been made by the Issuer(s) (or on its/their behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange and admitted to the Official List of the UK Listing Authority with effect from [ ].]  
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange and admitted to the Official List of the UK Listing Authority with effect from [ ].]
- (ii) Estimate of total expenses related to admission to trading: [ ]

### 2. RATING

Ratings: [The Notes to be issued have been rated:  
[S&P: [ ]]  
[Moody's: [ ]]  
[[Fitch]: [ ]]  
[[Other]: [ ]]  
[The Notes to be issued have not been rated]

### [3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”] [The Dealer[s] and [its]/[their] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer[s] and [its]/[their] affiliates in the ordinary course of business.]

### [4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i)] Reasons for the offer: [ ]  
[(ii)] Estimated net proceeds: [ ]  
[(iii)] Estimated total expenses: [ ]

### [5. Fixed Rate Notes only — YIELD

Indication of yield: [ ]  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

### [6. RPI Linked Notes only — PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING

Information relating to the UK Retail Price Index (all items) published by the Office of National Statistics can be found at [www.statistics.gov.uk](http://www.statistics.gov.uk).]

## 7. OPERATIONAL INFORMATION

- (i) ISIN: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable]/[ ]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]

## FORM OF PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Exempt Notes, whatever the denomination of those Notes, issued under the Programme.*

**NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH DIRECTIVE 2003/71/EC FOR THE ISSUE OF NOTES DESCRIBED BELOW. THE UK LISTING AUTHORITY HAS NEITHER APPROVED NOR REVIEWED THIS PRICING SUPPLEMENT.**

[Date]

### [SOUTHERN GAS NETWORKS PLC/SCOTLAND GAS NETWORKS PLC]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

**under the £5,000,000,000 Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Any person making or intending to make an offer of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Prospectus dated 17 October 2014 [and the supplement[s] to it dated [date] [and [date]]], including all documents incorporated by reference (the **Prospectus**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Prospectus. Copies of the Prospectus may be obtained from the registered office of the Issuer at [address] and the specified offices of each of the Paying Agents.

*[Include whichever of the following apply or specify as “Not Applicable”. Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

*[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]*

- |    |       |  |   |
|----|-------|--|---|
| 1. | (i)   | Issuer:  | [Southern Gas Networks plc/Scotland Gas Networks plc]   |
| 2. | (i)   | Series Number:   | [ ]   |
|    | (ii)  | Tranche Number:  | [ ]   |
|    | (iii) | Date on which the Notes will be consolidated and form a single Series: | [Not Applicable]/[The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about [ ]] |
| 3. |       | Specified Currency:  | [ ]   |
| 4. |       | Aggregate Nominal Amount of Notes:                                     | [ ]   |
|    | (i)   | Series:  | [ ]   |
|    | (ii)  | Tranche:   | [ ]   |
| 5. |       | Issue Price:   | [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ]]  |



6. (i) Specified Denominations: [ ] [and integral multiples of [ ] in excess thereof up to and including [ ]]. Definitive Notes will not be issued in denominations in excess of [ ]
- (ii) Calculation Amount: [ ]
7. (i) Issue Date: [ ]
- (ii) Interest Commencement Date: [ ]/[Issue Date]/[Not applicable]
8. Maturity Date: [ ]/[Interest Payment Date falling in or nearest to [ ]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
[[LIBOR/LIBID/LIMEAN/EURIBOR] +/- [ ] per cent. Floating Rate]  
[Zero Coupon]  
[RPI Linked Interest]
10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount/[par]
11. Change of Interest or Redemption/Payment Basis: [ ]/[Not Applicable]
12. Call Options: [Applicable]/[Not Applicable]  
[Issuer Call]  
[Issuer Maturity Call]  
[See paragraphs 18 and 19 below]
13. Date [Board] approval for issuance of Notes obtained: [ ]

#### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] [ ] and [ ] in each year up to and including the Maturity Date [adjusted in accordance with the [Following Business Day Convention]/[Modified Following Business Day Convention]] [[adjusted]/[no adjustment] for period end dates]
- (iii) Fixed Coupon Amount(s): [ ] per Calculation Amount/[Not Applicable]
- (iv) Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]/[Not Applicable]
- (v) Day Count Fraction: [Actual/Actual/Actual/Actual (ISDA)]  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360/360/360/Note Basis]  
[30E/360/Eurobond Basis]  
[30E/360 (ISDA)]  
[Actual/Actual (ICMA)]
- (vi) Determination Dates: [ ] in each year/[Not Applicable]
15. **Floating Rate Note Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s): [ ]

- (ii) Specified Interest Payment Dates: [ ]
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][adjusted]/[no adjustment] for period end dates
- (iv) Business Centre(s): [ ]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination]/[ISDA Determination]
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Principal Paying Agent): [ ]
- (vii) Screen Rate Determination: [Applicable][Not Applicable]  
 — Reference Rate: [LIBOR/LIBID/LIMEAN/EURIBOR]  
 — Interest Determination Date(s): [ ]  
 — Relevant Screen Page: [ ]
- (viii) ISDA Determination: [Applicable][Not Applicable]  
 — Floating Rate Option: [ ]  
 — Designated Maturity: [ ]  
 — Reset Date: [ ]
- (ix) Linear Interpolation: [Not Applicable/Applicable - the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]
- (x) Margin(s): [+/-][ ] per cent. per annum/[Not Applicable]
- (xi) Minimum Rate of Interest: [ ] per cent. per annum/[Not Applicable]
- (xii) Maximum Rate of Interest: [ ] per cent. per annum/[Not Applicable]
- (xiii) Day Count Fraction: [Actual/Actual/Actual/Actual (ISDA)]  
 [Actual/365 (Fixed)]  
 [Actual/360]  
 [30/360/360/360/Note Basis]  
 [30E/360/Eurobond Basis]  
 [30E/360 (ISDA)]  
 [Actual/Actual (ICMA)]
16. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
- (i) [Amortisation/Accrual] Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
17. **RPI Linked Interest Note** [Applicable/Not Applicable]
- (i) Rate of interest: [ ] per cent. per annum/[Not Applicable]
- (ii) Name and address of Calculation Agent (if any): [ ]
- (iii) Party responsible for calculating the Rate of Interest and/or Interest Amount (if not, or in addition [ ]

	to, the Principal Paying Agent):	
(iv)	Determination Date(s):	[ ]
(v)	Provisions for determining Coupon where calculation by reference to Index is impossible or impracticable or otherwise disrupted:	As described in Condition 6
(vi)	Interest or calculation period(s):	[ ]
(vii)	Specified Interest Payment Dates:	[ ]
(viii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(ix)	Business Centre(s):	[ ]
(x)	Minimum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
(xi)	Maximum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
(xii)	Day Count Fraction:	[Actual/Actual/Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Note Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
(xiii)	Minimum Indexation Factor:	[Not Applicable/[ ]]
(xiv)	Maximum Indexation Factor:	[Not Applicable/[ ]]
(xv)	Limited Indexation Month(s) or Period for calculation of Limited Indexation Factor:	[ ]
(xvi)	Base Index Figure:	[ ]
(xvii)	Index or Index Figure:	[3 months lag/8 months lag]
(xviii)	Reference Gilt:	[ ]

## PROVISIONS RELATING TO REDEMPTION

18.	<b>Issuer Maturity Call</b>	[Applicable/Not Applicable]
	Notice Periods:	Minimum Period: [15][ ]days Maximum Period: [30][ ]days
19.	<b>Issuer Call</b>	[Applicable/Not Applicable]
(i)	Optional Redemption Date(s):	[ ] [at any time that is more than 90 days prior to the Maturity Date]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[ ] per Calculation Amount/[Not Applicable]
	(b) Maximum Redemption Amount:	[ ] per Calculation Amount/[Not Applicable]

- (iv) Notice period: Minimum Period: [15] [ ] days  
Maximum Period: [30] [ ] days
20. **Final Redemption Amount** [ ] [Par] per Calculation Amount
21. **Early Redemption Amount**  
Early Redemption Amount(s) payable [ ]  
on redemption for taxation reasons or on  
event of default or other early  
redemption:

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

22. Form of Notes: [Temporary Global Note exchangeable for a  
Permanent Global Note which is exchangeable for  
Definitive Notes in the limited circumstances  
specified in the Permanent Global Note]  
[Temporary Global Note exchangeable for  
Definitive Notes on [ ] days' notice] [Permanent  
Global Note exchangeable for Definitive Notes in  
the limited circumstances specified in the  
Permanent Global Note]  
[Registered Notes]
23. [New Global Note][New Safekeeping  
Structure]: [Yes][No]
24. Financial Centre(s) or other special  
provisions relating to Payment Dates: [Not Applicable/[ ]]
25. Talons for future Coupons to be attached  
to Definitive Notes: [Yes, as the Notes have more than 27 coupon  
payments, Talons may be required if, on exchange  
into definitive form, more than 27 coupon payments  
are still to be made/No]

**THIRD PARTY INFORMATION**

[ ] has been extracted from [ ]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ] no facts have been omitted which would render the reproduced information inaccurate or misleading.]

**RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: -----  
Duly authorised

## PART B — OTHER INFORMATION

### 1. LISTING

- (i) Admission to trading: [Application has been made by the Issuer(s) (or on its/their behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange and admitted to the Official List of the UK Listing Authority with effect from [ ]]. [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Regulated Market of the London Stock Exchange and admitted to the Official List of the UK Listing Authority with effect from [ ]][Not applicable]
- (ii) Estimate of total expenses related to admission to trading: [ ] [Not Applicable]

### 2. RATING

Ratings: [The Notes to be issued have been rated:  
[S&P: [ ]]  
[Moody's: [ ]]  
[[Fitch]: [ ]]  
[[Other]: [ ]]  
[The Notes to be issued have not been rated]

### [3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”] [The Dealer[s] and [its]/[their] affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer[s] and [its]/[their] affiliates in the ordinary course of business.]]

### [4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i)] Reasons for the offer [ ]
- [(ii)] Estimated net proceeds: [ ]
- [(iii)] Estimated total expenses: [ ]

### [5. Fixed Rate Notes only — YIELD

Indication of yield: [ ]  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield]

### [6. RPI Linked Notes only — PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING

Information relating to the UK Retail Price Index (all items) published by the Office of National Statistics can be found at [www.statistics.gov.uk](http://www.statistics.gov.uk).]

## 7. OPERATIONAL INFORMATION

- (i) ISIN: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable]/[ ]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agents (if any): [ ]

## LISTING AND GENERAL INFORMATION

(1) From the date of this Prospectus and for so long as the Notes remain admitted to listing on the Official List and admitted to trading on the Regulated Market of the London Stock Exchange, copies of the following documents will be made available for inspection during usual business hours on any weekday (Saturdays, Sunday and holidays excepted) at the registered office of each Issuer and at the specified office in London of the Principal Paying Agent:

- (i) the memorandum and articles of association of each Issuer;
- (ii) the Annual Report of Southern GN for the financial year ended 31 March 2014 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2014);
- (iii) the Annual Report of Southern GN for the financial year ended 31 March 2013 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2013);
- (iv) the Annual Report of Scotland GN for the financial year ended 31 March 2014 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2014);
- (v) Annual Report of Scotland GN for the financial year ended 31 March 2013 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2013);
- (vi) a copy of the Trust Deed (as amended from time to time);
- (vii) a copy of the Programme Agreement (as amended from time to time);
- (viii) a copy of the Agency Agreement (as amended from time to time);
- (ix) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed to pursuant to a subscription agreement, the subscription agreement (or equivalent document);
- (x) this Prospectus; and
- (xi) any future prospectus, supplementary prospectuses and supplements including any Final Terms.

(2) Each Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme. Resolutions authorising the establishment of the Programme and the publication of this Prospectus were adopted by the board of directors of Southern GN and Scotland GN on 7 October 2014.

(3) As at the date of this Prospectus, there has been no significant change in the financial or trading position of Southern GN or Scotland GN, respectively, or of the Group since 31 March 2014 and there has been no material adverse change in the prospects of Southern GN or Scotland GN, respectively, or of the Group, since 31 March 2014.

(4) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of either Issuer or of the Group.

(5) Each Bearer Note, Coupon and Talon will bear a legend substantially to the following effect: "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".

(6) The Bearer Notes represented by the Temporary Global Note and the Permanent Global Note, and the Registered Notes represented by the Global Certificate, have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and ISIN for each Series of Notes will be contained in the Final Terms (or Pricing Supplement in the case of Exempt Notes) relating thereto.

(7) Deloitte LLP (chartered accountants, registered auditors and a member of the Institute of Chartered Accountants in England and Wales), auditors to each Issuer, have audited the financial statements of each Issuer for the years ended 31 March 2014 and 31 March 2013.

(8) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuers and their affiliates in the ordinary course of business.



**Issuers' Registered Offices**

**Southern Gas Networks plc**  
St Lawrence House  
Station Approach  
Horley  
Surrey RH6 9HJ  
United Kingdom  
(Telephone number: + 44 1189 544 004)

**Scotland Gas Networks plc**  
Axis House  
5 Lonehead Drive  
Newbridge  
Edinburgh EH28 8TG  
United Kingdom  
(Telephone number: + 44 1189 544 004)

**Arranger**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**Trustee**

**Citicorp Trustee Company Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Principal Paying Agent, Registrar and Transfer Agent**

**Citibank N.A., London Branch**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**Auditors to the Issuers**

**Deloitte LLP**  
2 New Street Square  
London EC4A 3BZ  
United Kingdom

**Legal Advisers**

**To the Issuers**

*in respect of English law*  
**Freshfields Bruckhaus Deringer LLP**  
65 Fleet Street  
London EC4Y 1HS  
United Kingdom

*in respect of Scots law*  
**CMS Cameron McKenna LLP**  
Saltire Court  
20 Castle Terrace  
Edinburgh EH1 2EN  
United Kingdom

**To the Arranger and the Dealers**

*in respect of English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
United Kingdom

**Dealers**

**Barclays Bank PLC**  
5 The North Colonnade  
Canary Wharf  
London E14 4BB  
United Kingdom

**CIBC World Markets plc**  
150 Cheapside  
London EC2V 6ET  
United Kingdom

**Lloyds Bank plc**  
10 Gresham Street  
London EC2V 7AE  
United Kingdom

**RBC Europe Limited**  
Riverbank House  
2 Swan Lane  
London EC4R 3BF  
United Kingdom

**The Royal Bank of Scotland plc**  
135 Bishopsgate  
London EC2M 3UR  
United Kingdom