



Northern Gas Networks Finance plc

(incorporated with limited liability in England and Wales with registered number 05575923)

£200,000,000

5.625 per cent. Guaranteed Bonds due 2040

Issue price: 98.443 per cent.

unconditionally and irrevocably guaranteed by

Northern Gas Networks Limited

(incorporated with limited liability in England and Wales with registered number 05167070)

The £200,000,000 5.625 per cent. Guaranteed Bonds due 2040 (the “**Bonds**”) will be issued by Northern Gas Networks Finance Plc (the “**Issuer**”) and will be constituted by a trust deed dated 23 March 2010 (the “**Trust Deed**”) between the Issuer, Northern Gas Networks Limited as Guarantor (“**NGN**”) and The Law Debenture Trust Corporation p.l.c. as trustee (the “**Trustee**”, which expression includes the trustee or trustees for the time being of the Trust Deed).

The payment of all amounts due in respect of the Bonds will be unconditionally and irrevocably guaranteed (amongst other payment obligations) by NGN pursuant to a guarantee (the “**Guarantee**”) which is contained in the Trust Deed.

Interest on the Bonds will be payable annually on 23 March in each year, commencing on 23 March 2011, at the rate of 5.625 per cent. per annum.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 23 March 2040. The Bonds are subject to redemption in whole at their principal amount, together with accrued and unpaid interest, at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom (see Condition 6.4 (“*Redemption for Taxation Reasons*”). The Bonds may also be redeemed at the option of the Issuer, in whole or in part in a principal amount equal to or greater than £5,000,000, at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield on the relevant United Kingdom Government stock, together with accrued and unpaid interest (see Condition 6.3 (“*Redemption at the option of the Issuer*”). In addition a holder of a Bond may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount together with accrued and unpaid interest on the date determined in accordance with Condition 6.2 (“*Regulatory Put Option*”) upon the occurrence of a Regulatory Event (as defined in Condition 6.2 (“*Regulatory Put Option*”). See Condition 6 (“*Redemption and Purchase*”).

An investment in the Bonds involves certain risks. For a discussion of these risks see “Risk Factors”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Bonds 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 the Bonds to be admitted to trading on the London Stock Exchange’s Regulated Market. The London Stock Exchange’s Regulated Market is a regulated market for the purposes of Directive 2004/39/EC.

The Bonds will initially be represented by a temporary global bond (the “**Temporary Global Bond**”), without interest coupons. The Temporary Global Bond will be deposited on or about 23 March 2010 (the “**Closing Date**”) with a common safekeeper for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the “**Permanent Global Bond**” and, together with the Temporary Global Bond, the “**Global Bonds**”), without interest coupons on or after 3 May 2010 (the “**Exchange Date**”), upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances — see “*Summary of Provisions Relating to the Bonds while Represented by the Global Bonds*”. The Bonds shall be issued in denominations of £50,000 and integral multiples of £1,000 thereafter up to and including £99,000.

The Bonds are expected to be rated Baal by Moody’s Investors Service Limited (“**Moody’s**”) and BBB+ by Standard & Poor’s Rating Services, a division of The McGraw Hill Companies Inc (“**S&P**”, and together with Moody’s, the “**Rating Agencies**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Joint Lead Managers

Barclays Capital
RBC Capital Markets

Lloyds TSB Corporate Markets
The Royal Bank of Scotland

This Prospectus comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the “**Prospectus Directive**”).

Each of the Issuer and NGN (together, the “**Responsible Persons**”) accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and NGN (each 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.

Each of the Issuer and NGN confirm that any information included herein which has been sourced from third parties has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by any such source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*”).

No person has been authorised to give any information or to make any representation other than as is contained in this document in connection with the offering of the Bonds and, if given or made, any such information or representation must not be relied upon as having been authorised by the Issuer, NGN, the Trustee or the Joint Lead Managers (as defined under “*Subscription and Sale*”). Neither the delivery of this Prospectus nor any sale of Bonds made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or NGN since the date hereof. This Prospectus does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, NGN, the Trustee or the joint Lead Managers to subscribe for, or purchase, any of the Bonds. This Prospectus does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

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

The Joint Lead Managers and the Trustee have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer or NGN in connection with the Bonds or their distribution.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, NGN, the Trustee or the Joint Lead Managers that any recipient of this Prospectus should purchase any of the Bonds. Each investor contemplating purchasing the Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and NGN.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended, (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this Prospectus, see “*Subscription and Sale*”.

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

All references in this Prospectus to “sterling”, “Pounds Sterling”, and “£” refer to the currency of the United Kingdom.

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Documents Incorporated by Reference

This Prospectus should be read and construed in conjunction with the audited financial statements of each of the Issuer and NGN as at and for the years ended 31 December 2007 and 31 December 2008 together, in each case, with the audit report thereon. These documents have been previously published and have been approved by the Financial Services Authority or filed with it. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purposes of this Prospectus to the extent that a statement herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Where documents incorporated by reference themselves incorporate information by reference, such information does not form part of this Prospectus.

The Issuer and NGN will, each at its registered office and at the specified offices of the Paying Agents, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Prospectus and any document incorporated by reference in this Prospectus. Any request for inspection of such documents should be directed to the specified office of any Paying Agent.

Overview of the Bonds

The following overview does not purport to be complete and is qualified in its entirety by the remainder of this Prospectus, in particular the Conditions of the Bonds (the “Conditions”). This overview should be read as an introduction to the Prospectus and any decision to invest in the Bonds should be based on consideration of the Prospectus as a whole.

Words and expressions defined in the Conditions shall have the same meanings in this summary.

Issuer	Northern Gas Networks Finance Plc (the “Issuer”)
Guarantor	Northern Gas Networks Limited (“NGN”)
Risk Factors	There are certain factors that may affect (i) the Issuer’s ability to fulfil its obligations under the Bonds and (ii) NGN’s ability to fulfil its obligations under the Guarantee. These are each set out under “Risk Factors”. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Bonds, which are also set out under “Risk Factors”.
Issue Date	23 March 2010
Joint Lead Managers	Barclays Bank PLC; Lloyds TSB Bank plc; Royal Bank of Canada Europe Limited; and The Royal Bank of Scotland plc.
Trustee	The Law Debenture Trust Corporation plc.
Principal Paying Agent	Royal Bank of Canada Europe Limited
Distribution	The Bonds will be issued on a syndicated basis.
Issue Amount	£200,000,000
Issue Price	98.443 per cent.
Form of Bonds	The Bonds will be issued in bearer form as described in “Summary of Provisions Relating to the Bonds while Represented by the Global Bonds”.
Interest	Interest on the Bonds will be paid annually in arrear on 23 March in each year at a rate of 5.625 per cent. per annum.
Currency	Pounds Sterling.
Denomination	The Bonds are issued in denominations of £50,000 and integral multiples of £1,000 thereafter up to and including £99,000.
Maturity Date	23 March 2040
Final Redemption	Unless redeemed at the option of the Issuer pursuant to Condition 6.3 (“Redemption at the option of the Issuer”) or Condition 6.4 (“Redemption for Taxation Reasons”) or redeemed at the option of a Bondholder pursuant to Condition 6.2 (“Regulatory Put Option”), the Bonds shall be redeemed on the Maturity Date at par, plus accrued interest.
Status of Bonds	The Bonds will constitute unsubordinated and, subject to Condition 4 (“Negative Pledge”), unsecured obligations of the Issuer, which will rank at least <i>pari passu</i> with all other unsecured and unsubordinated obligations of the Issuer, present and future, save for such obligations as may be preferred by provisions of law that are both mandatory and

	of general application, as described in Condition 2 (“ <i>Status of the Bonds and the Guarantee</i> ”).
Negative Pledge	The Bonds will have the benefit of a negative pledge as described in Condition 4 (“ <i>Negative Pledge</i> ”).
Events of Default	The events of default under the Bonds are as specified in Condition 10 (“ <i>Events of Default</i> ”). In particular, the Bonds will have the benefit of a cross default provision in relation to the other Indebtedness of the Issuer and NGN as described in Condition 10(c).
Guarantee	The Bonds will be issued with the benefit of a guarantee by NGN which is contained in the Trust Deed. Pursuant to the Guarantee, NGN will guarantee payments of interest on and principal of the Bonds and all other monies payable by the Issuer under or pursuant to the Trust Deed.
Status of Guarantee	The obligations of NGN under the Guarantee will be direct, (subject to Condition 4 (“ <i>Negative Pledge</i> ”)) unsecured and unconditional obligations of NGN which will rank at least <i>pari passu</i> with all other unsecured and unsubordinated obligations of NGN, present and future, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application, as described in Condition 2 (“ <i>Status of the Bonds and the Guarantee</i> ”).
Rating	The Bonds are expected to be rated BBB+ by S&P and Baal by Moody’s. 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.
Regulatory Put Option	In certain circumstances, any Bondholder may require the Issuer to redeem his Bonds early. See Condition 6.2 (“ <i>Regulatory Put Option</i> ”).
Optional Redemption at the option of the Issuer	The Bonds may be redeemed at the option of the Issuer in accordance with the provisions of Condition 6.3 (“ <i>Redemption at the option of the Issuer</i> ”) and Condition 6.4 (“ <i>Redemption for Taxation Reasons</i> ”).
Taxation	All payments in respect of the Bonds or the Guarantee will be made without deduction or withholding for or on account of taxes imposed by any Relevant Jurisdiction unless such deduction or withholding is required by law. In the event that any such deduction is made, the Issuer or, as the case may be, NGN will, save in certain limited circumstances provided in Condition 8 (“ <i>Taxation</i> ”), be required to pay additional amounts to cover the amounts so deducted or withheld.
Governing Law	English law.
Listing and admission to trading	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the London Stock Exchange’s Regulated Market.
Selling Restrictions	There are restrictions on the offer, sale and transfer of the Bonds in the United States and the United Kingdom. See “ <i>Subscription and Sale</i> ”.

Risk Factors

Each of the Issuer and NGN believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and neither the Issuer nor NGN is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below.

Each of the Issuer and NGN believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer or NGN to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and neither the Issuer nor NGN represents that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Bonds

Special purpose vehicle issuer

The Issuer is a special purpose financial entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds. As such the Issuer is entirely dependent upon receipt of funds received from NGN in order to fulfil its obligations under the Bonds.

Factors that may affect NGN's ability to fulfil its obligations under the Guarantee

Regulatory environment, revenue and costs

The gas industry is subject to extensive legal and regulatory obligations and controls and NGN must comply with all applicable laws, regulations and regulatory standards (see "*Description of NGN*").

Under the current regulatory regime regulated by the Authority (as defined in Condition 3 ("*Definitions*")). NGN's allowed revenue is determined by the distribution price controls set out in the terms of its Gas Transporter ("*GT*") Licence, which is set by the Authority every five years. The current price control has been agreed with the Authority and covers the period from 1 April 2008 to 31 March 2013 (see "*Description of NGN — Gas Transportation Regulation*"). Therefore, unless the Authority proposes amendments to the price control condition, which is considered extremely unlikely, there is a high degree of certainty as to the level of regulatory revenue until 31 March 2013.

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 condition of NGN. Change to market structures implemented as a result of legislative developments and regulatory decisions concerning, for example, whether licences or approvals to operate are granted or renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for NGN's businesses, and proposed business development activities could have an adverse impact on NGN's results of operations, cash flows, the financial condition of its businesses and the ability to develop businesses in the future.

The Authority has a statutory objective to protect interests of customers where appropriate by promoting competition. Although the Authority also has a secondary statutory duty to ensure that licence holders are able to finance their regulated activities, there can be no assurance that current and/or future price controls will permit the generation of sufficient revenues to enable NGN to meet its payment obligations under the Bonds. There can also be no assurance that net operating revenues generated by NGN will be sufficient to meet such payment obligations.

NGN's overall financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates

NGN is subject to certain covenants and restrictions in relation to its listed debt securities and its bank lending facilities. NGN is also subject to restrictions on financing that have been imposed by regulators. These

restrictions may hinder NGN in servicing the financial requirements of its business. The debt issued by NGN is rated by credit rating agencies and changes to these ratings may affect both the borrowing capacity of the Issuer, NGN and NGN's holding company, Northern Gas Networks Holdings Limited (together the "**NGN Group**") as a whole and the cost of these borrowings. NGN's borrowing capacity and its cost of borrowing could also be affected by adverse changes in the global credit markets. The effective rate of tax paid by the NGN Group may be influenced by a number of factors including changes in law and accounting standards.

Changes to the rate of inflation

NGN's turnover is linked to the underlying rate of inflation (measured by the Retail Price Index ("**RPI**")) and as such is subject to fluctuations in line with changes in the rate of inflation. In addition, changes in the rate of inflation are likely to impact on the operating costs and capital expenditure of NGN.

NGN's reported Regulated Asset Value ("**RAV**") is adjusted by RPI each year when calculating NGN's Net Senior Debt: RAV gearing and as such is subject to changes in the rate of inflation.

Asset Service Agreement

The operation and maintenance of the network ("**Opex**"), as well as the responsibility for implementing the Capex and Repex programmes has been contracted out to United Utilities Operations Limited ("**UUOL**") under the terms of an Asset Services Agreement ("**ASA**") which expires on 31 March 2013. UUOL's costs of providing such services are passed through to NGN, subject to payment of bonus and penalty payments where the costs are respectively below or above agreed target levels. If UUOL performs poorly and the costs are higher than the target levels, UUOL bears a proportion of the excess costs. NGN's exposure to over-spend against the target level is capped at a percentage of the total, dependent on activity.

Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both NGN's financial position and its reputation

NGN is responsible for transporting available gas. NGN consults with and provides information to the Office of Gas and Energy Markets ("**Ofgem**") and industry participants about future demand and the availability of supply. However, where there is insufficient supply to meet demand, whether because of extreme weather conditions, or failure of plant or systems operated by other participants in the UK gas industry or third parties, NGN's role is to manage the relevant system safely, which, in extreme circumstances, may require NGN to interrupt supply to consumers.

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

Network Service Agreements ("**NSAs**") relate to a number of transitional agreements put in place between NGN and National Grid Gas Plc ("**National Grid Gas**") at the time the network was acquired from National Grid Gas (see "*Overview of NGN*") to provide a range of network specific services for a defined period whilst NGN was considering the enduring arrangements it might require. Certain of the NSAs — notably the System Operation Managed Services Agreement ("**SOMSA**") under which National Grid Gas provides the system which NGN uses to manage System Control functions within the network — are critical to the operation of NGN's business. The liability of National Grid Gas for breach of the terms of these agreements is severely limited and in such event NGN would be unable to recover the full extent of its losses.

In addition, under the industry structure, the functions of supply point administration, calculation of metered volumes and shipper billing are carried out by xoserve Limited ("**xoserve**"), a company owned by National Grid

Gas, NGN and the other networks. Failure of xoserve to meet contractual and invoicing arrangements may have an adverse effect on NGN's ability to collect revenue.

NGN's results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated costs and efficiency savings

Earnings maintenance and growth from NGN's regulated gas business may be affected by its ability to meet or better efficiency targets and/or incentives set by Ofgem. Earnings from NGN's regulated businesses will also be affected by its ability to recover incurred expenditure. Levels of earnings from NGN's businesses may also be affected by failure to meet service quality standards set by Ofgem.

Modifications to the GT Licence (other than price control provisions)

The Authority has formal powers to propose modifications to NGN's GT Licence, but it may not impose such modifications unless (a) the Authority proposes to modify the standard licence conditions of all GT licences and less than 20 per cent. of gas transporters (weighted by volume of gas delivered in the previous 12 months) have objected within a 28 day notice period; (b) following a reference to the Competition Commission which has reported that the matters referred to it would, or might be expected to, operate against the public interest unless remedied; or (c) NGN is required to do so under certain competition legislation.

Any such modifications may have a significant financial effect on NGN's business. NGN is not aware of any planned material modification of its GT Licence but there can be no assurance that a restrictive modification will not be brought forward which could have an adverse effect on the operations and financial condition of NGN.

Breaches of or changes in environmental or health and safety laws or regulations could expose NGN to claims for financial compensation and adverse regulatory consequences and could damage NGN's reputation

Aspects of NGN's activities are potentially dangerous, such as distribution of natural gas. Gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of NGN's operations that are not currently regarded as having adverse effects that could become so. NGN is subject to laws and regulations relating to pollution, the protection of the environment and how NGN uses and disposes of hazardous substances and waste materials. These have the potential to expose NGN to costs and liabilities relating to its operations and properties. NGN is also subject to laws and regulations governing health and safety matters, protecting both the public and its employees. Any breach of these obligations, or even incidents relating to the environment or to health and safety that do not amount to a breach, could adversely affect the results of operations and NGN's reputation.

Consequences of not complying with the regulatory requirements

A failure by NGN to comply with its GT Licence or certain statutory duties may lead to the making of a provisional or final enforcement order by the Authority. NGN would have a right of appeal to court. These orders are enforceable by injunction and any person who suffers loss as a result of NGN contravening an order may make a claim against NGN. Additionally, failure to comply with an enforcement order within three months after notice from the Authority of such failure may lead to revocation of NGN's GT Licence.

Independently, and without first being required to make an enforcement order, the Authority also has powers to levy penalties of up to 10 per cent. of NGN's turnover for any breach of its GT Licence, certain statutory duties or certain standards of performance. NGN would have a right of appeal to a court.

In addition, the Authority has powers to revoke NGN's GT Licence in certain circumstances by giving not less than 30 days' written notice. Such circumstances include NGN agreeing in writing that the GT Licence should be revoked and (following certain grace periods) late payment of licence fees, failure to comply with an enforcement order under the Gas Act 1986, failure to pay a penalty imposed by the Authority and failure to comply with orders made under certain sections of the Competition Act 1998 and the Enterprise Act 2002. In addition, the Authority may revoke the GT Licence on not less than 24 hours' written notice due to certain specified insolvency events. Unless terminated in the circumstances mentioned above, the GT Licence

continues indefinitely until revoked by the Authority on not less than 10 years' written notice (which cannot be given before 22 August 2011). Such circumstances may result in an NGN Restructuring Event which may lead to a Regulatory Put Event under Condition 6.2 ("*Regulatory Put Option*") of the Bonds.

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

Special administration

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

An energy administrator has a different objective to other insolvency practitioners. The objective would be to ensure that NGN's system is and continued to be maintained and developed as an efficient and economical system and that the order can be discharged by rescuing NGN 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 NGN 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 objective, best protects the interests of the creditors of the company as a whole and, subject to those interests, the interests of the members of the company as a whole.

Real estate

National Grid Gas did not deduce title to all of the properties within NGN's network during the process of NGN's acquisition from National Grid Gas. The draft certificates of title produced for approximately 30 major sites within the network were not in usual form and contained certain caveats, and additionally the title deeds for three of the major properties had been lost. Up to 15,000 pipeline easements and other rights were transferred by means of a global assignment which may in a limited number of instances have breached a requirement for landlords' consents. This could potentially lead to claims against which NGN has indemnified National Grid Gas (the likelihood is considered low). In addition to the 30 major sites, approximately 2,400 sites had been identified as being within the network, being a mixture of freehold and leasehold, and a process of transfer to NGN was provided for over a five year period from the acquisition. A verification exercise has reduced the actual number of sites to nearer 2,000. Of the 2,000 properties National Grid Gas have been able to trace title to approximately 1,700 of which approximately 1,400 transfers have been executed (as at 1 December 2009). A reasonable proportion of the leasehold sites may require the landlord's consent prior to transfer which may not be forthcoming. National Grid Gas and NGN will attempt to resolve as many individual sites as possible within the five year period following which NGN will seek to register what interest it can.

Future funding requirements of NGN pension schemes could adversely affect NGN's results of operations

NGN participates in a pension scheme which covers the majority of the employees of UUOL, its Operator. This scheme is a defined benefit scheme where the scheme assets are held independently of NGN's finances. Estimates of the amount and timing of future funding for this scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, the average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require NGN to make additional contributions to this pension scheme which, to the extent they are not recoverable under its price controls, could adversely affect results of operations of NGN.

Health and Safety Executive regulation

The HSE is responsible for regulating safety matters relating to, *inter alia*, the operation of the gas transportation infrastructure. There is a risk that the operating and capital costs incurred by NGN in order to

satisfy the safety requirements of the HSE are not recovered in future formula revenue. In addition, prior to undertaking any change to the operations, NGN 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, the changes are accepted by the HSE.

Industrial diseases and employer's liability claims

NGN may face significant claims in the future relating to the historic operations of its business. Under the agreement by which its business was transferred out of National Grid Gas into NGN (the "**Hivedown Agreement**"), NGN assumed all liabilities past, present and future, known or unknown, in respect of both the assets and the business of National Grid Gas in the North of England network. NGN also provided an indemnity in favour of National Grid Gas against any such claims. By far the largest element could relate to employer's liability claims including asbestosis or hand arm vibration syndrome. As at 1 December 2009, 159 claims had been received in respect of legacy Employers Liability for which NGN is responsible with an outstanding reserve totalling £1.64 million. As at 1 December 2009, 100 matters have been closed or settled. As at 1 December 2009, £1.15 million of costs have been incurred in relation to the conduct and settlement of these claims. Statistically it is possible to make a reasonable estimate of the likely number and value of such claims and how they are likely to peak and fall away over time. Any irrecoverable costs may have an adverse effect on NGN's business, financial condition or results of operations.

Environmental policy and management

The manufacture of gas from coal and oil historically has resulted in the contamination of some of the sites from which NGN currently operates. Such sites may also have a complex history of potentially contaminative use dating back to the nineteenth century. As part of the acquisition, NGN has taken on full responsibility for the historical and ongoing environmental condition of its owned and shared sites and provided an indemnity to National Grid Gas. 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. NGN has been unable to make an accurate assessment of the likely costs because imperfect information was provided and experts' estimates of such costs differ. The Authority has stated that it would expect to make an appropriate allowance in a licensee's controlled revenue for the efficient level of costs of cleaning up contaminated land occupied for the purpose of the regulated business. However, there is no guarantee that such policy will be continued, or that Ofgem will consider NGN's costs to be efficiently incurred. Any irrecoverable costs involved in these activities and the liability which may arise may have an adverse effect on NGN's business, financial condition or results of operations.

Shrinkage gas

Shrinkage gas comprises gas lost to leaks, gas lost due to theft and own use gas consumed by NGN. Under the current price control to 31 March 2013, it was agreed by Ofgem that from 1 October 2008 the volume of shrinkage gas to be purchased will be a fixed annual target rather than related to throughput. The revenue allowed is based on an allowed price set with reference to a published day ahead index. NGN's risk relates to the degree to which its purchases do not meet the gas day ahead prices as published by ICIS Heren. NGN has a contract which enables it to match this reference index.

Existing bank financing

In June 2005 NGN entered into a 5-year £1,025 million credit facility with a syndicate of 14 banks led by Barclays Bank PLC, JPMorgan and Royal Bank of Canada comprising Term Loan facilities of £875 million, a Revolving Credit Facility of £125 million and a Working Capital Facility of £25 million (the "**Syndicated Facility**"). £505 million of Term Loans were repaid out of the proceeds from the issue of the Issuer's 2005 Bonds (as defined in "*Description of the Issuer*") in November 2005.

In March 2006 the terms of the Syndicated Facility, notably the drawn margin payable, were renegotiated as a consequence of which the number of syndicate banks was reduced to eight and the remaining Term Loan and the Revolving Credit Facility limits were reduced to £366 million and £84 million respectively. At the same time Royal Bank of Canada provided NGN with a £45 million bilateral loan facility (the "**RBC Facility**").

On 15 and 17 December 2008 respectively, NGN entered into £30 million bilateral revolving credit facilities with Barclays Bank PLC and Lloyds TSB Bank plc (together with the RBC Facility, the “**Bilateral Facilities**” and together with the Syndicated Facility, the “**Existing Facilities**”).

In December 2008 the European Investment Bank extended a loan facility of £150 million to NGN (the “**EIB Facility**”). In March 2009 a further £25 million of Term Loans were repaid. In July 2009 £197.0 million of Term Loans were repaid out of the net proceeds of the Issuer’s 2019 Bonds (as defined in “*Description of the Issuer*”). In September 2009 a further £0.3 million of Term Loans were repaid.

The balance of all of the Existing Facilities must be refinanced by no later than 1 June 2010. The Existing Facilities include standard events of default and in certain circumstances the banks will be able to stop further drawings and in limited circumstances accelerate the outstanding amounts under such facilities. The Existing Facilities are unsecured but any acceleration or non-payment in excess of £25 million would trigger a cross-default under Condition 10(c) of the Bonds (as would any similar acceleration or non-payment under the Issuer’s 2005 Bonds and 2019 Bonds. See “*Description of the Issuer*” below). An event of default under the Syndicated Facility (with the exception of, *inter alia*, an extension of the date of any payment which requires the consent of all lenders) may be waived by the Majority Lenders under that facility (i.e. those with two thirds of outstanding and undrawn commitments). The Bilateral Facilities may be amended or waived with the consent of the relevant lender.

In July 2009 NGN also entered into a £200 million revolving credit and working capital forward start facility with Barclays Bank PLC, Lloyds TSB Bank plc, Royal Bank of Canada and The Royal Bank of Scotland plc (the “**Forward Start Facility**”) which is available for initial utilisation from the earlier of the date on which the Existing Facilities are all prepaid and cancelled in full and 1 June 2010. The final maturity date of the Forward Start Facility is in August 2012.

Fluctuations in interest rates could have a substantial impact on NGN’s financial position and business results

A proportion of NGN’s borrowings are subject to variable interest rates that may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase NGN’s costs and diminish its profits.

New or revised accounting standards, rules and interpretations by the UK or international accounting standard setting boards and other relevant bodies could have an adverse effect on NGN’s reported financial results

The accounting treatment under International Financial Reporting Standards (“**IFRS**”), as adopted by the European Union, of Repex, pension and post retirement benefits, derivative financial instruments and shrinkage gas contracts significantly affect the way NGN reports its financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to NGN’s circumstances, and to those areas in particular, could result in changes in the financial results and financial position that it reports. In addition, new standards, rules or interpretations may be issued that could also have significant effects.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

The Bonds may not be a suitable investment for all investors

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including if the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Bonds; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risks related to the Bonds generally

Set out below is a brief description of certain risks relating to the Bonds generally:

Issuer's Optional Redemption

The Issuer has the option to redeem the Bonds in whole or in part (but if in part, in a principal amount equal to or greater than £5,000,000) at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield on the relevant United Kingdom Government stock, together with accrued and unpaid interest as described under Condition 6.3 ("*Redemption at the Option of the Issuer*"). This optional redemption feature is likely to limit the market value of the Bonds as the market value of the Bonds generally will not rise substantially above the price at which they can be redeemed.

Modification, waivers and substitution

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The conditions of the Bonds also provide that the Trustee may, subject to certain restrictions, without the consent of Bondholders, agree to (a) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or (b) determine without the consent of the Bondholders that any Event of Default (as defined in Condition 10 ("*Events of Default*")) shall not be treated as such.

Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident, or to certain limited types of entities established, in another Member State. However, for a transitional period, Luxembourg and Austria may instead (unless during that period they elect otherwise) operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories). A number of non-EU countries and territories have adopted similar measures.

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the European Commission's advice on the need for changes to the Savings Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Savings Directive, they would amend or broaden the scope of the requirements described above.

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 Issuer, NGN nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Bonds as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent with a specified office in a Member State that will not be obliged to withhold or deduct tax pursuant to any law

implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26–27 November 2000.

Change of law

The Conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Integral multiples of less than £50,000

The Bonds are denominated in amounts of £50,000 and integral multiples of £1,000 thereafter up to and including £99,000. In the event that definitive Bonds are required to be issued, a holder who holds a principal amount which is less than £50,000 in his account with the relevant clearing system at the relevant time would need to purchase a principal amount of Bonds such that his holding amounts to at least £50,000 before he may receive a definitive Bond in respect of such holding. Except in circumstances set out in the relevant Global Bonds, investors will not be entitled to receive definitive Bonds.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Bonds may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Bonds.

The clearing systems

Because the Global Bonds may be held by or on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer.

Bonds issued may be represented by a Temporary Global Bond or Permanent Global Bond. Such Global Bonds may be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg which will maintain records of the interests in the Global Bonds. While the Bonds are represented by one or more Global Bonds, investors will be able to trade their interests only through Euroclear or Clearstream Luxembourg.

While Bonds are represented by one or more Global Bonds, the Issuer will discharge its payment obligations under such Bonds by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of an interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Bonds.

Holder of interests in the Global Bonds will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Bonds and NGN will make any payments under the Guarantee in Pounds Sterling. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than Pounds Sterling. These include the risk that exchange rates may significantly change (including changes due

to devaluation of Pounds Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Pounds Sterling would decrease (a) the Investors Currency-equivalent yield on the Bonds, (b) the Investor's Currency-equivalent value of the principal payable on the Bonds and (c) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

Independent credit rating agencies are expected to assign credit ratings to the Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

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 (a) Bonds are legal investments for it, (b) Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Conditions of the Bonds

The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form (if issued). Bonds in definitive form will be issued only in certain limited circumstances. For a summary of the provisions of the Bonds in global form, see "Summary of Provisions Relating to the Bonds while Represented by the Global Bonds".

The £200,000,000 5.625 per cent. Guaranteed Bonds due 2040 (the "**Bonds**", which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 16 and forming a single series with the Bonds) of Northern Gas Networks Finance Plc (the "**Issuer**") are constituted by a Trust Deed (the "**Trust Deed**", which expression includes any modification or supplement thereto) dated 23 March 2010 (the "**Issue Date**") made between the Issuer, Northern Gas Networks Limited ("**NGN**") as guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**", which expression shall include its successor(s) or any other or additional trustee) as trustee for the holders of the Bonds (the "**Bondholders**") and the holders of the interest coupons appertaining to the Bonds (the "**Couponholders**" and the "**Coupons**" respectively).

The payment of principal and interest in respect of the Bonds and all other monies payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by NGN pursuant to the guarantee (the "**Guarantee**") contained in the Trust Deed.

Payments in respect of the Bonds will be calculated and made pursuant to a paying agency agreement dated on or about the Issue Date (as amended, supplemented and/or restated from time to time, the "**Paying Agency Agreement**") between the Issuer, NGN, the Trustee, Royal Bank of Canada Europe Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed under the Paying Agency Agreement), and the initial paying agents appointed thereunder (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agent appointed thereunder).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of, and the definitions contained in, the Trust Deed and the Paying Agency Agreement. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them.

1. Form, Denomination and Title

1.1 *Form and Denomination*

The Bonds are in bearer form, serially numbered, in denominations of £50,000 and integral multiples of £1,000 thereafter up to and including £99,000, with Coupons attached on issue.

1.2 *Title*

Title to the Bonds and to the Coupons will pass by delivery.

1.3 *Holder Absolute Owner*

The Issuer, NGN, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. Status of the Bonds and the Guarantee

2.1 Status of the Bonds

The Bonds and the Coupons are direct, unsecured and unsubordinated obligations of the Issuer which rank and will rank at least *pari passu*, without any preference or priority among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2.2 The Guarantee

The Bonds have the benefit of the Guarantee pursuant to which NGN has unconditionally and irrevocably guaranteed, as primary obligor, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds.

2.3 Status of the Guarantee

The obligations of NGN under the Guarantee constitute direct, unsecured and unconditional obligations of NGN which rank and will rank at least *pari passu*, with all the other outstanding unsecured obligations of NGN, present and future, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Definitions

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

“**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).

“**Energy Act**” means the Energy Act 2004 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

“**Finance Documents**” means each of the Trust Deed, the Bonds, the Paying Agency Agreement and any fee letter entered into by the Issuer and/or NGN in connection with any of these documents.

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

- (i) moneys borrowed;
- (ii) any acceptance credit (including any dematerialised equivalent);
- (iii) any bond, note, debenture, loan stock or other similar instrument;
- (iv) any redeemable preference share;
- (v) any agreement treated as a finance or capital lease in accordance with generally accepted accounting principles in the jurisdiction of incorporation of the Issuer or NGN;
- (vi) receivables sold or discounted (otherwise than on a non-recourse basis);
- (vii) 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;
- (viii) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (ix) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;

- (x) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (xi) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs.

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

“Licence” means the licence granted by the Gas and Electricity Markets Authority to NGN under the Gas Act 1986 (as amended by the Gas Act 1995, the Utilities Act 2000 and the Energy Act).

“Maturity Date” means 23 March 2040.

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

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

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

“NGN Restructuring Event” means:

- (a) (i) the Authority giving NGN or any Subsidiary of NGN written notice of any revocation of its Licence or (ii) NGN agreeing in writing with the Authority to any revocation or surrender of its Licence or (iii) any legislation (whether primary or subordinate) is enacted terminating or revoking the Licence of NGN, except in any such case in circumstances where a licence or licences on substantially no less favourable terms (in the opinion of NGN and as certified in good faith by two directors of NGN to the Trustee (upon which the Trustee may rely absolutely without liability to any person)) is or are granted to NGN or a wholly-owned Subsidiary of NGN and, in the case of such Subsidiary, at the time of such grant it either (I) executes in favour of the Trustee (x) an unconditional and irrevocable guarantee in respect of the Bonds and (y) a trust deed in which it agrees to be bound by the terms of the Finance Documents and agrees to be subject to the same obligations as are expressed under such Finance Documents as are imposed thereunder upon NGN in such form and content as the Trustee may approve (and provided further that each of the Issuer, NGN and any such Subsidiary agree to make any other consequential amendments to the Finance Documents as the Trustee may require) (and with effect from the date of such grant, the term “NGN” as used in these Conditions shall be construed to refer to NGN and to any such Subsidiary as may be so approved) or (II) becomes the primary obligor under the Bonds pursuant to Condition 17; or
- (b) any material rights, benefits or obligations of NGN under the Licence or any material terms of the Licence are modified (whether or not with the consent of NGN or the Authority and whether pursuant to the Gas Act 1986 or otherwise but excluding modifications arising out of the periodic review by the Authority of NGN’s maximum allowable revenue) or any other material consents, licences or authorisations are revoked unless two directors of NGN shall have certified in good faith to the Trustee that any such modification or revocation would not have a material adverse effect on NGN or the Issuer and in deciding whether it shall have such a material adverse effect, such directors of NGN shall have regard to the likelihood of such modification or revocation resulting in a Negative Certification, a Negative Rating Event or a Rating Downgrade; or
- (c) 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 for the Department of Trade and Industry (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 Energy Act or any equivalent legislation which amends, supplements or supersedes any such relevant provisions of the Energy Act) unless two directors of NGN shall have certified in good faith to the Trustee that any such removal,

reduction or qualification of any such duties or powers would not have a material adverse effect on NGN or the Issuer and in deciding whether it shall have such a material adverse effect, such directors of NGN shall have regard to the likelihood of such removal, reduction or qualification resulting in a Negative Certification, a Negative Rating Event or a Rating Downgrade.

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

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

“**Rating Agency**” means S&P or Moody’s, or any permitted substitute selected by the Issuer from time to time with the prior written approval of the Trustee.

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

“**Regulated Asset Value**” means in relation to any date, the amount calculated as the regulated asset value of NGN as last determined and notified to NGN by the Authority (“**Base Date**”); plus a revaluation adjustment based on the actual capital additions and the increase since the Base Date in the Retail Prices Index published by the Office for National Statistics, provided that if the method for the determination of the regulated asset value of NGN is substantially modified from the method used as at the Issue Date, two directors of the Issuer (after consultation with NGN) will certify in good faith to the Trustee (i) that they have duly consulted NGN and (ii) what changes to this definition (if any) shall be required in order that, for the purposes of this definition, the regulated asset value of NGN is determined on a basis which is substantially consistent with that used as at the Issue Date.

“**Relevant Date**” has the meaning given to it in Condition 9.

“**Relevant Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or NGN, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Bonds and Coupons.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors.

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

“**Subsidiary**” means (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and (b) unless the context otherwise required, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“**Treaty**” means the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam (signed on 2 October 1997).

4. Negative Pledge

- (a) Except as provided below in paragraph (b), neither the Issuer nor NGN may create or allow to exist any Security Interest on the whole or any part of its undertaking, assets or revenues present or future unless the Bonds, the Coupons and NGN’s obligations under the Guarantee are secured equally and rateably in terms which either (i) are deemed by the Trustee not to be materially less beneficial to the interests of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

- (b) Paragraph (a) does not apply to:
- (i) any Security Interest comprising a netting or set-off arrangement entered into by the Issuer or NGN in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
 - (ii) any lien arising by operation of law and in the ordinary course of business; and
 - (iii) any Security Interest securing Indebtedness the amount of which Indebtedness, when aggregated with all other Indebtedness secured by a Security Interest as at the date of incurrence of the first-mentioned Indebtedness does not exceed 10 per cent. of the Regulated Asset Value of NGN as at such date.

5. Interest

5.1 *Interest Rate and Interest Payment Dates*

The Bonds bear interest on their outstanding principal amount from and including the Issue Date at the rate of 5.625 per cent. per annum (the “**Rate of Interest**”). Interest will be payable in arrear on 23 March in each year (each such date, an “**Interest Payment Date**”) from and including 23 March 2011 to and including the Maturity Date (each such payment, an “**Interest Payment**”).

If interest is required to be calculated in respect of a period ending other than on an Interest Payment Date, such interest shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

5.2 *Default Interest*

- (a) Amounts of principal in respect of each Bond will cease to bear interest from and including the Maturity Date or any earlier redemption date pursuant to Condition 6.2, 6.3, 6.4 or 10 unless, upon due presentation in accordance with Condition 7.1. and subject to Condition 7.3, payment of the relevant amount is improperly withheld or refused or default is otherwise made in respect of such payment, in which case the unpaid amount will bear default interest (“**Default Interest**”) at the Rate of Interest plus 2 per cent. per annum (after as well as before judgment) until whichever is the earlier of:
- (i) the day on which the relevant principal sum due in respect of such Bond, together with (in respect of Default Interest accruing on or after the Maturity Date or any earlier redemption date pursuant to Condition 6.2, 6.3, 6.4 or 10) Default Interest thereon up to but excluding that day and any other amount due in respect of such Bond, are received in full by or on behalf of the relevant Bondholder; and
 - (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders in accordance with Condition 13 that the Principal Paying Agent or, as the case may be, the Trustee has received the relevant principal sum due in respect of such Bond up to but excluding such seventh day together with Default Interest and any other amount due in respect of such Bond as aforesaid (unless and except to the extent that there is any subsequent default in payment, in which case Default Interest shall continue to accrue on such principal sum due and unpaid up to but excluding the date upon which such principal sum (together with Default Interest and any other amount due in respect of such Bond as aforesaid) is received by or on behalf of the relevant Bondholder).
- (b) Each period beginning on (and including) the date on which the relevant payment is improperly withheld or refused or default is otherwise made in payment thereof and ending on (but excluding) the relevant day determined pursuant to subparagraph (a) (i) or (a) (ii) above is herein called a “**Default Interest Period**”.

- (c) The amount of Default Interest payable in respect of each Bond for any Default Interest Period shall be calculated on the basis specified in Condition 5.1 and shall be due in full on the day on which it shall cease to accrue pursuant to Condition 5.2(a).
- (d) No Default Interest shall accrue on any amounts due and payable to the extent that such amounts themselves constitute Default Interest.

6. Redemption and Purchase

6.1 *Redemption*

Unless previously redeemed in full, or purchased and cancelled as provided below, the Issuer will redeem the Bonds on 23 March 2040 at their principal amount.

6.2 *Regulatory Put Option*

If at any time

- (a) there occurs an NGN Restructuring Event (on which occurrence, NGN shall notify the Issuer as soon as practicable thereafter);
- (b) a Negative Certification is made in respect of such NGN Restructuring Event; and
- (c) within the NGN Restructuring Period either:
 - (i) a Rating Downgrade in respect of the NGN Restructuring Event occurs; or
 - (ii) a Negative Rating Event in respect of the NGN Restructuring Event occurs;

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

Promptly upon either NGN or the Issuer being aware of a Regulatory Put Event having occurred and in any event within 14 days thereof, either NGN or the Issuer shall, and at any time upon becoming so aware the Trustee may, and if so requested in writing by holders of at least 25 per cent. in aggregate principal amount of the Bonds or if directed by Extraordinary Resolution shall (subject to the Trustee being indemnified and/or secured (including by way of prefunding) to its satisfaction, give notice to the Bondholders of the occurrence of such Regulatory Put Event (such notice, a “**Regulatory Put Event Notice**”), any such notice to be delivered in accordance with the provisions of Condition 13. At any time from receipt of such Regulatory Put Event Notice to the date falling 45 days thereafter (such period, the “**Regulatory Put Exercise Period**”) upon the Issuer receiving at least five Business Days’ notice from any Bondholder (any such notice, a “**Put Event Notice**”), the Bonds of such Bondholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of such Put Event Notice (such date, the “**Regulatory Put Event Date**”), redeem each Bond the subject of such Put Event Notice at its principal amount together with interest accrued to (but excluding) the Regulatory Put Event Date.

Pursuant to the above provisions, any Bondholder having the right to require early redemption of his Bonds pursuant to this Condition 6.2, to exercise the right to require redemption of his Bonds the holder of this Bond must, if this Bond is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Regulatory Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “**Regulatory Put Exercise Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6.2 accompanied by this Bond or evidence satisfactory to the Paying Agent concerned that this Bond will, following delivery of the Regulatory Put Exercise Notice, be held to its order or under its control. If this Bond is represented by a Global Bond or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of the Bonds the holder of this Bond must, within the Regulatory Put Event Notice Period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg, as the case may be, or any common service provider for them to the Principal

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

Any Regulatory Put Exercise Notice or other notice given by a holder of any Bond in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 6.2 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Bonds to be due and repayable pursuant to Condition 10, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6.2.

6.3 *Redemption at the option of the Issuer*

The Issuer may at its option, having given not less than 30 nor more than 90 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), redeem the Bonds in whole or in part (but, if in part, in a principal amount equal to or greater than £5,000,000) at the price which shall be the higher of the following:

- (a) their principal amount; and
- (b) that price (the "**Redemption Price**"), expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the second dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the 4.75 per cent. Treasury Stock 2038 or, if such stock is no longer in issue, of such other United Kingdom Government Stock as the Issuer, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "**Reference Stock**") on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by Barclays Bank PLC (or such other person(s) as the Trustee may approve in writing). Any reference in these Conditions to principal shall, where applicable, be deemed to be a reference to the Redemption Price. The "**Gross Redemption Yield**" on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for calculating Gilt Prices from Yields*" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published 8 June 1998) (as supplemented, amended or replaced from time to time),

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

Notices of redemption will specify the date fixed for redemption, the applicable redemption price and, in the case of partial redemption, the serial numbers of the Bonds called for redemption, the serial numbers of any Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after redemption. No such notice of redemption may be given by the Issuer unless it shall have delivered to the Trustee a certificate signed by two Directors of the Issuer (upon which the Trustee may rely absolutely and without liability to any person) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption delivered in accordance with this Condition 6.3, the Issuer shall be bound to redeem the Bonds called for redemption in accordance with this Condition 6.3.

In the case of a partial redemption the notice shall also contain the serial numbers of the Bonds to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

6.4 *Redemption for Taxation Reasons*

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the Issue Date, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or (ii) NGN would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, NGN taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, NGN would be obliged to pay such additional amounts, were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, NGN (upon which the Trustee may rely absolutely and without liability to any person) stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, NGN taking reasonable measures available to it and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, NGN has or will become obliged to pay such additional amounts as a result of the change or amendment.

6.5 *No Other Redemption*

Without prejudice to Condition 10, the Issuer shall not be entitled to redeem the Bonds in whole or in part otherwise than as provided in this Condition 6.

6.6 *Purchase*

Each of the Issuer and NGN or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price, provided that all unmatured Coupons appertaining thereto are purchased therewith. The Bonds so purchased, while held by or on behalf of or for the benefit of the Issuer or NGN or any of their respective Subsidiaries, any holding company of NGN or any Subsidiaries of any such holding company, in each case as beneficial owner, shall not entitle the holder to vote at any meetings of the Bondholders.

6.7 *Cancellation*

All Bonds so redeemed or purchased by the Issuer or NGN or any of their respective Subsidiaries shall forthwith be cancelled together with all relative unmatured Coupons whether or not attached to the Bonds or surrendered with the Bonds and accordingly may not be reissued or resold.

7. *Payments*

7.1 *Payments Only Against Presentation*

Payments in respect of the Bonds by the Issuer will be made only against:

- (a) in the case of Interest Payments, presentation and surrender (or, in the case of part payment only, endorsement) of the appropriate Coupon;
- (b) in the case of final redemption, against presentation and surrender (or in the case of part payment only, endorsement) of such Bond; and

- (c) in any other case, against presentation and surrender (or, in the case of part payment only, endorsement) of such Bond,

at the Specified Office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) by transfer to a sterling account maintained by the payee with, or, at the option of the payee, by sterling cheque drawn on a sterling account maintained by the payor with, a bank in London.

7.2 *Unmatured Coupons void*

On the early redemption in full of any Bond pursuant to Condition 6.2, 6.3, 6.4 or 10, all unmatured Coupons relating thereto (whether or not attached) shall become void and no payment will be made in respect thereof.

7.3 *Payments on Business Days*

If the due date for payment of any amount in respect of any Bond or Coupon by the Issuer is not a business day, the holder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means any day on which banks are open for business in the place of presentation and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

7.4 *Payments Otherwise Than Against the Surrender of Coupons*

If a Paying Agent makes a payment in respect of any Bond in circumstances where no Coupon is surrendered, such Paying Agent will endorse on such Bond a statement indicating the amount and date of such payment.

7.5 *Fractions*

In respect of any payment to Bondholders, any fraction of one penny will be rounded down to the nearest penny.

8. **Taxation**

8.1 *Payment Without Withholding*

All payments in respect of the Bonds or Coupons by or on behalf of the Issuer or NGN or under the Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, NGN will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) presented for payment by or on behalf of a Bondholder or Couponholder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond or Coupon; or
- (b) presented for payment by or on behalf of a Bondholder or Couponholder who would not be liable or subject to the withholding or deduction by making a declaration of non residence or other similar claim for exemption to the relevant tax authority; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC or any other

Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000; or

- (d) presented for payment by or on behalf of a Bondholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date except to the extent that a Bondholder or Couponholder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a business day (as defined in Condition 7.3).

8.2 *Additional Amounts*

Any reference in these Conditions to any amounts in respect of the Bonds or Coupons shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9. **Prescription**

Claims for principal and interest will become void unless the relevant Coupon and/or the relevant Bond (as the case may be) is/are presented for payment as required by Condition 7 within periods of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

For the purposes of these Conditions, “**Relevant Date**” means whichever is the later of (a) the date on which a payment under or in respect of the Bonds or Coupons or the Trust Deed first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Paying Agent on or prior to such due date, the date on which, the full amount having been so received (including any Default Interest), notice to that effect shall have been given to the Bondholders in accordance with Condition 13.

10. **Events of Default**

If any Event of Default (as described below) occurs and has not been waived by or remedied to the satisfaction of, the Trustee, then the Trustee may, and shall upon being so requested in writing by the holders of at least 25 per cent. in outstanding principal amount of the Bonds or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders (but in the case of the occurrence of any of the events described in sub-paragraphs (b) and (e) to (i) inclusive, only if the Trustee shall have certified in writing to the Issuer and NGN that such event, is in its opinion, materially prejudicial to the interests of the Bondholders), subject in each case to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction, declare by written notice to the Issuer and NGN that the Bonds are immediately due and repayable, whereupon without further action or formality the Bonds shall become due and repayable at their outstanding principal amount together with accrued interest up to and including the date of redemption.

Each of the following events shall constitute an event of default (each, an “**Event of Default**”):

- (a) if (i) default is made in the payment of any principal or (ii) if a default is made in the payment of any interest due in respect of the Bonds or any of them and such default continues for three (3) days or more; or
- (b) if the Issuer or NGN fails to perform or observe any of its other obligations under the Bonds, the Conditions, the Guarantee, the Trust Deed or the Paying Agency Agreement and (except in any case, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 60 days next following the service by the Trustee on the Issuer or NGN (as the case may be) of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness (as defined in the Condition 3) of the Issuer or NGN becomes due and payable prior to its stated maturity by reason of any actual event of default, or (ii) any amount in respect of such Indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, provided that the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned above in this paragraph (c) have occurred since the Issue Date exceeds £25,000,000 (or its equivalent in any other currency); or

- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or NGN, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (e) if the Issuer or NGN ceases or threatens to cease to carry on the whole or, in the opinion of the Trustee, a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution, or the Issuer or NGN stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (i) proceedings are initiated against the Issuer or NGN under any applicable liquidation, insolvency, composition reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official or an administrative or other receiver manager administrator or other similar official is appointed, in relation to the Issuer or, NGN or as the case may be, in relation to the whole or in the opinion of the Trustee a substantial part of the undertaking or assets of either of them, or an encumbrancer takes possession of the whole or in the opinion of the Trustee a substantial part of the undertaking or assets of either of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or in the opinion of the Trustee a substantial part of the undertaking or assets of either of them and (ii) in any case (other than the appointment of an administrator) is not discharged within 60 days; or
- (g) if the Issuer or NGN initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (h) the Issuer ceases to be a Subsidiary Controlled, directly or indirectly, by NGN; or
- (i) if the Guarantee, in whole or in part, ceases to be, or is claimed by the Issuer or NGN not to be, in full force and effect; or
- (j) if the Trust Deed in whole or, in the opinion of the Trustee, in any material part ceases to be or is claimed by the Issuer or NGN not to be, in full force and effect; or
- (k) (i) 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 (ii) 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, in either case, any equivalent legislation which amends, supplements or supersedes any such relevant provisions of the Energy Act 2004); or
- (l) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the opinion of the Trustee an analogous effect to any of the events referred to in paragraphs (d) to (g) (inclusive) above.

11. Enforcement

11.1 *Exercise and Enforcement*

As more particularly provided in the Trust Deed, the Trustee will, in certain circumstances, be obliged to take action to exercise or enforce its rights under these Conditions, the Trust Deed or in respect of the Bonds and Coupons (provided that the Trustee has been indemnified or prefunded or provided with security to its satisfaction). Subject as aforesaid, the Trustee shall not be bound as against the Bondholders to take any such action unless:

- (a) it has been so requested in writing by the holders of at least 25 per cent. in outstanding principal amount of the Bonds or has been so directed by an Extraordinary Resolution of the Bondholders; and
- (b) it has been indemnified or prefunded or provided with security to its satisfaction.

11.2 *Action by Bondholders*

No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer or NGN in respect of the Bonds unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure is continuing.

12. **Replacement of Bonds and Coupons**

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

13. **Notices**

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Bonds are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 13.

14. **Trustee and Paying Agents**

14.1 *Trustee Entitled to be Indemnified*

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its remuneration, costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, NGN, the Bondholders, the Couponholders, and any entity related to the Issuer, NGN or any Bondholder or Couponholder or any other such person without accounting for any profit.

14.2 *Trustee Entitled to Rely on Information*

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

14.3 *Trustee to have Regard to Bondholders as a Class*

In the exercise of its rights, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination) under these Conditions or the Trust Deed, the Trustee shall have regard to the interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction

of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, NGN, the Trustee or any other person, any indemnification or other payment in respect of any consequence (including without limitation, any tax consequence) for individual Bondholders or Couponholders of any such exercise.

14.4 *Relationship of Paying Agents to the Bondholders*

In acting under the Paying Agency Agreement and in connection with the Bonds and Coupons, the Paying Agents act solely as agents to the Issuer, NGN and (to the extent provided therein and in the Trust Deed) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders or the Couponholders.

14.5 *Variation or Termination of Appointment of Paying Agents*

The names of the initial Paying Agents and their initial specified offices are listed below. The Issuer may (with prior written approval of the Trustee), and at the request of the Trustee shall, at any time vary or terminate the appointment of any Paying Agent and appoint additional or replacement paying agents; provided, however, that the Issuer shall at all times maintain:

- (a) a Paying Agent with a specified office in a European city approved by the Trustee; and
- (b) a Paying Agent with a specified office in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000.

Notice of any change in any of the Paying Agents or in their specified offices shall promptly be given by the Issuer to the Bondholders in accordance with Condition 13.

14.6 *Accounts Available for Inspection*

The Issuer has covenanted in the Trust Deed to make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Bondholders.

15. Meetings of Bondholders, Modification, Waiver, Authorisation and Determination

15.1 *Meetings of Bondholders*

- (a) The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification of these Conditions. Subject to the terms of the Trust Deed, any such modification or other matter may be made if sanctioned by an Extraordinary Resolution of the Bondholders. A meeting of Bondholders will also have the power (exercisable by Extraordinary Resolution), subject to the terms of the Trust Deed, among other things, (i) to authorise, direct, request or instruct the Trustee in connection with the exercise by the Trustee of certain of its rights, powers and discretions in respect of the Bonds or under the Trust Deed, (ii) to remove the Trustee or approve the appointment of a new Trustee and (iii) to appoint any persons (whether Bondholders or not) as a committee to represent the interests of the Bondholders and to confer upon such committee any powers which the Bondholders could themselves exercise by Extraordinary Resolution.
- (b) The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons present holding or representing in aggregate at least 50 per cent. in principal amount of the Bonds outstanding, or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of Bonds held or represented; provided, however, that any proposal:
 - (i) to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds or to alter the

method of calculating the amount of any payment in respect of the Bonds or Coupons or the date for any such payment;

- (ii) to effect any exchange of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations of the Issuer, NGN, the Trustee or any other person or to approve the substitution of any person for the Issuer as principal obligor, or the substitution of NGN, under the Bonds or Coupons and the Trust Deed other than in the circumstances set out in Condition 17;
- (iii) to change the currency of payments under the Bonds or Coupons;
- (iv) to change the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution; or
- (v) to amend this Condition 15.1(b),

may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, at least 25 per cent. in outstanding principal amount of the Bonds shall form a quorum.

Any Extraordinary Resolution duly passed at any meeting of Bondholders duly convened and held shall be binding on all Bondholders, whether present or not, and on all Couponholders.

The majority required to pass an Extraordinary Resolution is at least 75 per cent. of the votes cast. In addition, a resolution in writing signed by or on behalf of the holders of at least 90 per cent. in outstanding principal amount of the Bonds 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 Bondholders.

15.2 *Modification, Waiver Authorisation and Determination*

Subject always to the provisions of Condition 14.3 above and the provisions of the Trust Deed, the Trustee may, without the consent of the Bondholders or Couponholders, concur with the Issuer, NGN or any other relevant parties in making:

- (a) any modification to these Conditions, the Trust Deed or the Paying Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest or proven (to the satisfaction of the Trustee) error; and
- (b) any other modification and any waiver or authorisation of any Event of Default or breach or proposed breach of these Conditions, the Trust Deed or the Paying Agency Agreement which is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders (as to which, the Trustee may rely absolutely without liability to any person upon written confirmation from the Rating Agencies that such modification, waiver or authorisation will not result in the rating of the Bonds or the then current rating of NGN (if any) being reduced or withdrawn as conclusive evidence of the absence of material prejudice to the interests of the Bondholders).

Any such modification, waiver or authorisation shall be binding on all Bondholders and Couponholders and, if the Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders in accordance with Condition 13 as soon as practicable thereafter.

Subject always to the terms of Condition 14.3 above and to the provisions of the Trust Deed, the Trustee may also determine, without the consent of the Bondholders or the Couponholders that any Event of Default shall not, or shall not subject to specified conditions, be treated as such provided that the Trustee determines that the interests of the Bondholders would not be materially prejudiced thereby (as to which, the Trustee may rely upon written confirmation from the Rating Agencies that such first determination will not result in the rating of the Bonds or the then current rating of NGN (if any) being reduced or withdrawn as conclusive evidence of the absence of material prejudice to the interests of the Bondholders).

Any such determinations shall be binding on all Bondholders and Couponholders and, if the Trustee so requires, notice thereof shall be given by the Issuer to the Bondholders in accordance with Condition 13 as soon as practicable.

16. Further Issues

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the Bonds constituted by the Trust Deed; provided that it may issue such further bonds only if it has obtained prior confirmation from each of S&P and Moody's that such further issue will not have any adverse effect on the then current rating of NGN. Any such further bonds shall be constituted by a deed supplemental to the Trust Deed.

17. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer and NGN to the substitution of the Issuer (or of any previous Substitute Issuer (as defined below)) by NGN or any other corporate entity which, in each case, is acceptable to the Trustee to act as principal debtor in relation to the Bonds (a "**Substitute Issuer**"), subject to the Trustee being satisfied that the obligations of such Substitute Issuer in relation to the Bonds continue to be fully and unconditionally guaranteed by NGN (except in the case of a substitution whereby NGN itself shall act as Substitute Issuer), the interests of the Bondholders will not be materially prejudiced thereby and certain other conditions set out in the Trust Deed being complied with.

18. Rights of Third Parties

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. Governing Law

The Trust Deed, the Bonds, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by, and will be construed in accordance with, English law.

Summary of Provisions Relating to the Bonds while Represented by the Global Bonds

The Temporary Global Bond and the Permanent Global Bond relating to the Bonds (each a “Global Bond” and together, the “Global Bonds”) contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Permanent Global Bond on or after a date which is not earlier than 40 days after the Issue Date upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Permanent Global Bond is exchangeable in whole but not in part (free of charge to the holder) for Bonds in definitive form (the “Definitive Bonds”) described below in denominations of £50,000 and integral multiples of £1,000 thereafter, up to and including £99,000 if the Permanent Global Bond is held on behalf of either Euroclear Bank S.A./N.V. (“Euroclear”) or Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”) and the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative system satisfactory to the Trustee is available. Thereupon the holder (acting on the instructions of any Accountholder (as defined below)) may give notice to the Issuer, the Principal Paying Agent and the Trustee of its intention to exchange the Permanent Global Bond for Definitive Bonds on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the Permanent Global Bond may procure a change to the record of the relevant clearing system. In exchange for the Permanent Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of principal and interest, respectively, which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant Definitive Bonds.

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

Payments

On and after the date which is not earlier than 40 days after the Issue Date, no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Permanent Global Bond will be made to its holder and reflected in the records of the relevant clearing system and, in the case of principal, the nominal amount of the Bonds will be reduced accordingly. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. The records of each clearing system will be conclusive evidence that such payment has been made in respect of the Bonds and a statement issued by such relevant clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at such time.

Notices

So long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bonds(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication by it to Accountholders in substitution for publication as required by the Conditions, provided that, for so long as the Bonds are listed on a stock exchange, such stock exchange or other relevant authority by which they have been admitted to listing so agrees. Any such notice shall be deemed to have been given to the

Bondholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid. A copy of every notice to Bondholders will be supplied by the Issuer to Euroclear and Clearstream, Luxembourg for so long as the Bonds are cleared and settled through those clearing systems or to any additional or substitute clearing system from time to time nominated by the Issuer and approved by the Trustee through which the Bonds are cleared and settled.

Prescription

Claims against the Issuer and NGN in respect of principal and interest on the Bonds while the Bonds are represented by a Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

Accountholders

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds the right to which shall be vested, as against the Issuer, NGN and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

Purchase and cancellation

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

In connection with an exercise of the option contained in Condition 6.3 in relation to some only of the Bonds, the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Bonds to be redeemed will not be selected as provided in the Conditions. In such event, the standard procedures of the relevant clearing system shall operate to determine which interests in the Global Bond(s) are to be subject to such option. The Issuer shall procure that any exercise of any option or any right under the Bonds, as the case may be, shall be entered in the records of the relevant clearing system and upon any such entry being made, the nominal amount of the Bonds represented by such Global Bond shall be adjusted accordingly.

Euroclear and Clearstream, Luxembourg

References in the Global Bonds and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

Use of Proceeds

The net proceeds from the issue of the Bonds shall be on-lent by the Issuer to NGN to repay, in part, its outstanding indebtedness.

Description of the Issuer Northern Gas Networks Finance plc

Information about the Issuer

The Issuer is a finance vehicle and was incorporated in England and Wales on 27 September 2005 as Northern Gas Networks Finco plc under registered number 05575923 as a public company with limited liability under the Companies Act 1985 (as amended) and is a wholly-owned subsidiary of NGN. It changed its name to Northern Gas Networks Finance Plc on 17 October 2005. The registered office of the Issuer is at 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU and its contact telephone number is +44 (0)113 397 5300. The Issuer has no subsidiaries. The entire issued share capital of the Issuer is held within the NGN group of companies.

Business overview

The principal activity of the Issuer is to raise funds in the financial markets for use by NGN. The Issuer was established primarily for this purpose.

Directors

The Issuer is managed by a board of directors. The directors of the Issuer and their respective business addresses are:

<i>Name</i>	<i>Function</i>	<i>Address</i>
W Shurniak	Chairman and Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
B Scarsella	CEO and Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
F R Frame	Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
H Lam Kam	Director	Cheung Kong Infrastructure Holdings Ltd, 12th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
K Sum Tso	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
N McGee	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
A Hunter	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
M Robinson	Director	Deutsche Asset Management (Australia) Limited, Level 21, 83 Clarence Street, Sydney, New South Wales 2000, Australia

Administrative, management and supervisory bodies conflicts of interests

As at the date of this Prospectus, the above mentioned members of the board of directors of the Issuer do not have potential conflicts of interests between any duties to the Issuer and their private interests or other duties.

Material Investments

The Issuer has made no material investments and as at the date of this Prospectus, its board of directors has made no firm commitments on such material investments in the future.

Existing bond financing

In November 2005 the Issuer issued £250,000,000 4.875 per cent. Guaranteed Bonds due 2027 (the “**2027 Bonds**”) and £255,000,000 4.875 per cent. Guaranteed Bonds due 2035 (the “**2035 Bonds**”) and, together with the 2027 Bonds, the “**2005 Bonds**”). The 2005 Bonds have substantially the same terms and conditions as the Bonds, were guaranteed by NGN and were further guaranteed as to scheduled payments of principal and interest under a financial guarantee from FGIC UK Limited.

In July 2009 the Issuer issued £200,000,000 5.875 per cent. Guaranteed Bonds due 2019 (the “**2019 Bonds**”). The 2019 Bonds have substantially the same terms and conditions as the Bonds and were guaranteed by NGN.

Organisational structure and shareholding

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

Trend Information

There has been no material adverse change in the prospects of the Issuer since 31 December 2008.

Auditing of annual financial information

The financial statements of the Issuer are prepared by the directors in accordance with generally accepted accounting principles and practice in the UK and are audited by Deloitte LLP in accordance with United Kingdom generally accepted auditing standards, and certified without qualification.

Legal and arbitration proceedings

The Issuer is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have or have had in the 12 months preceding the date of this Prospectus, significant effects on the Issuer’s financial position or profitability.

Material contracts

Save for the loan agreements described below, no contract has been entered into by the Issuer which could result in any member of the Group being under an obligation or entitlement that is material to the Issuer’s ability to meet its obligation to the holders of the Bonds.

In July 2009 the Issuer on-lent the proceeds from the 2019 Bonds (net of fees) to NGN under a loan agreement entered into between the Issuer and NGN. The terms of such loan agreement were on an arm’s length basis and on normal commercial terms.

The Issuer intends to on-lend the proceeds from the Bonds (net of fees) to NGN under a loan agreement to be entered into between the Issuer and NGN. The terms of such loan agreement will be on an arm’s length basis and on normal commercial terms.

Significant change in the Issuer’s financial or trading position

There has been no significant change in the Issuer’s financial or trading position since 31 December 2008.

Description of NGN

Information about NGN

NGN was incorporated in England and Wales on 30 June 2004 as Blackwater F Limited under registered number 05167070 as a private company with limited liability under the Companies Act 1985 (as amended) and is a wholly owned subsidiary of Northern Gas Networks Holdings Limited (“**NGN Holdings**”) It changed its name to Northern Gas Networks Limited on 1 June 2005. The registered office of NGN is at 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU and its contact telephone number is +44 (0)113 397 5300.

Business overview

NGN’s principal business is the ownership, operation and development (through an Asset Services Agreement (“**ASA**”) with United Utilities Operations Limited (“**UUOL**”)) of one of the eight UK gas distribution networks (“**DNS**”) that take gas from the UK’s high pressure UK gas national transportation system (“**NTS**”) and transport it through a total of 275,000 kilometres of pipelines to approximately 21 million business and home consumers. The eight DNS are largely discrete networks which are connected to the NTS and have a small number of connections between the individual distribution networks.

Directors

NGN is managed by a board of directors. The directors of NGN and their respective business addresses are:

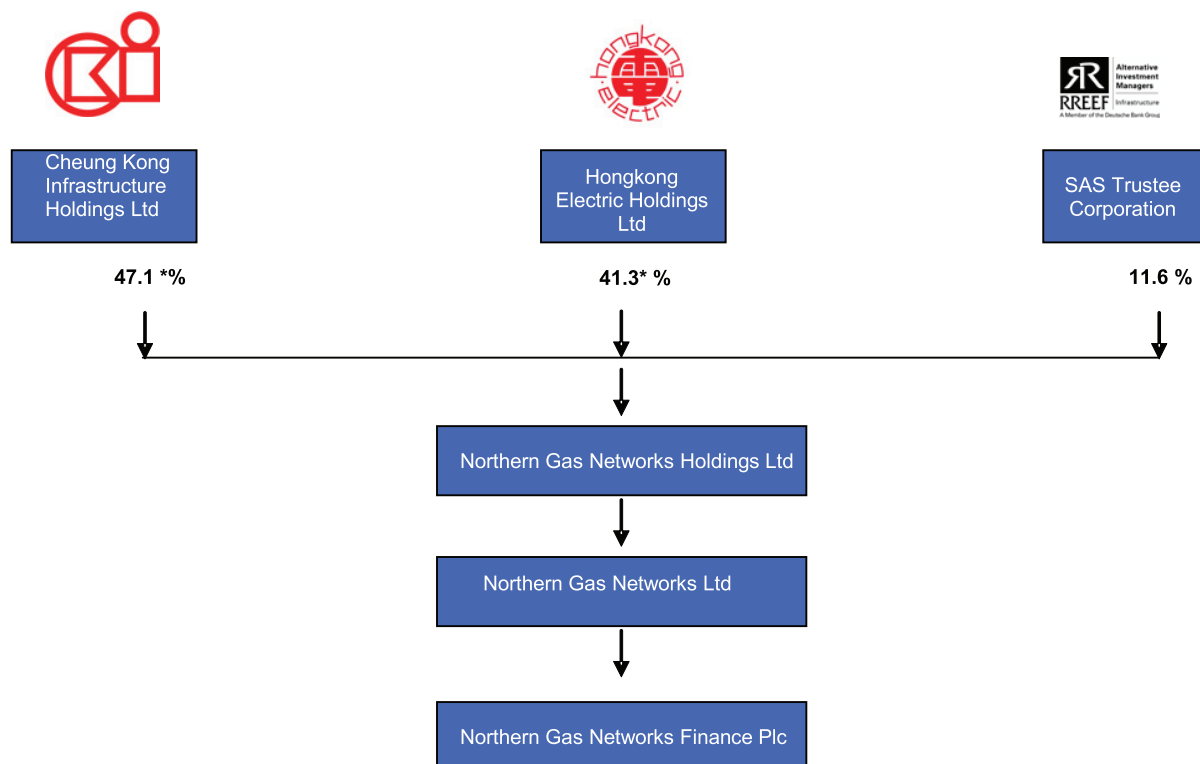
<i>Name</i>	<i>Function</i>	<i>Address</i>
W Shurniak	Chairman and Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
B Scarsella	CEO and Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
F R Frame	Director	c/o NGN, 1100 Century Way, Thorpe Park, Colton, Leeds, LS15 8TU, UK
H Lam Kam	Director	Cheung Kong Infrastructure Holdings Ltd, 12th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong
K Sum Tso	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
N McGee	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
A Hunter	Director	Hongkong Electric Holdings Limited, 44 Kennedy Road, Hong Kong
M Robinson	Director	Deutsche Asset Management (Australia) Limited, Level 21, 83 Clarence Street, Sydney, New South Wales 2000, Australia

Conflicts of interest

None of the members of the board of directors of NGN has any potential conflict of interest between their duties to NGN and their private interests or other duties.

Organisational structure and shareholding

The immediate holding company of NGN is NGN Holdings, which holds all of the issued shares (being 100 shares of £1 each, each of which is fully paid-up) in NGN. As at the date of this document, the shareholders of NGN Holdings are:



* Shareholdings are held through wholly owned subsidiaries

The shareholders of NGN Holdings have entered into a Shareholders' Agreement governing the exercise of their rights in NGN Holdings. English company law combined with provisions included in the Shareholders' Agreement are together intended to prevent any abuse of control of NGN.

Auditing of annual financial information

The financial statements of NGN, incorporated by reference, have been prepared by the directors in accordance with generally accepted accounting principles and practice in the UK and have been audited by Deloitte LLP in accordance with United Kingdom generally accepted auditing standards, and certified without qualification.

Trend information

There has been no material adverse change in the prospects of NGN since 31 December 2008.

Significant change in NGN's financial or trading position

There has been no significant change in the NGN's financial or trading position since 31 December 2008.

Legal and arbitration proceedings

Other than as disclosed in "*Risk Factors — Industrial diseases and employer's liability claims*" on page 11 of this Prospectus, NGN is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NGN is aware), which may have or have had, in the 12 months preceding the date of this document, significant effects on NGN's and the NGN Group's financial position or profitability.

Material contracts

Save for (i) the Existing Facilities, the EIB Facility and the Forward Start Facility referred to in “*Risk Factors — Existing bank financing*” on pages 11 and 12 of this Prospectus and (ii) the loan agreements, interest rate swaps and guarantee in respect of the previous bonds issued by the Issuer described below, no contract (other than contracts entered into in the ordinary course of business) has been entered into by NGN which could result in any member of the Group being under an obligation or entitlement that is material to NGN’s ability to meet its obligation to holders of the Bonds:

(a) *Intra-Group Loans*

- (i) NGN entered into a loan agreement dated as of 1 June 2005 (the “**Intra-Group Loan Agreement**”) with Northern Gas Networks Holdings Limited pursuant to which Northern Gas Networks Holdings Limited made a loan of £24.3 million to NGN. This loan was applied in partial repayment of NGN’s indebtedness to National Grid Gas. The loan is non-interest bearing. The loan does not fall due for repayment until the senior debt (defined to include the bank financing and any refinancing) has been paid in full and is subordinated to the senior debt in accordance with a subordination agreement.
- (ii) NGN entered into a loan agreement with the Issuer dated as of 15 November 2005 (the “**Intercompany Loan Agreement**”) pursuant to which the Issuer loaned £505.0 million to NGN being the net proceeds of the 2027 Bonds and the 2035 Bonds issued by the Issuer on 10 November 2005. This loan was applied in partial repayment of NGN’s then outstanding bank acquisition finance. The loan bears interest at a rate that reflects the interest cost to the Issuer under the 2027 Bonds and the 2035 Bonds.
- (iii) NGN entered into a loan agreement with the Issuer dated as of 8 July 2009 (the “**2009 Intercompany Loan Agreement**”) pursuant to which the Issuer loaned £198.2 million to NGN being the net proceeds of the 2019 Bonds issued by the Issuer on 8 July 2009. This loan was applied in partial repayment of NGN’s then outstanding bank acquisition finance. The loan bears interest at a rate that reflects the interest cost to the Issuer under the 2019 Bonds.

(b) *Interest Rate Swap Positions*

NGN uses interest rate swaps to hedge against the risk of changes in UK interest rates and the risk of changes in the cost of debt it is allowed to recover from customers under regulatory arrangements. The following interest rate swaps are currently outstanding:

- (i) £505.0 million of swaps that swap the effective rate on the 2027 Bonds and the 2035 Bonds into floating rate for life transacted in cancellable 5-year tranches. This enables NGN to synchronise the rate resetting on a portion of its debt with Ofgem’s determination of cost of debt allowances for each price control period;
- (ii) £505.0 million of swaps that re-fix the effective rate on the 2027 Bonds and the 2035 Bonds for the duration of the 2008-2013 regulatory Price Control Period;
- (iii) £295.0 million of swaps that fix the rate on substantially all of NGN’s bank debt from March/April 2008 to March/April 2010. To the extent that the net proceeds of the Bonds are applied in repayment of loans thus hedged, NGN will cancel a corresponding portion of the hedging swaps;
- (iv) £200.0 million of forward-starting floating to fixed swaps that previously acted as a pre-hedge of a portion of the fixed rate on the 2019 Bonds from March 2010 to March 2020;
- (v) £200.0 million of forward-starting fixed to floating swaps whose terms mirror those on the swaps described under (iv);
- (vi) £50.0 million of forward-starting swaps that will fix the rate on a corresponding amount of EIB loans from March 2010 to March 2020; and
- (vii) £250.0 million of forward-starting swaps that pre-hedge a portion of the fixed rate on the Bonds from March 2010. At pricing of the Bonds these swaps will no longer act as a pre-hedge. Any change in the fair value of £230.0 million principal value of these swaps between execution and pricing of the Bonds will be annuitised over the life of the original swaps by way of “mirror” swaps. The remaining £20.0 million principal value of swaps will be cancelled or reversed through the use of mirror swaps or retained as a hedge of other NGN debt.

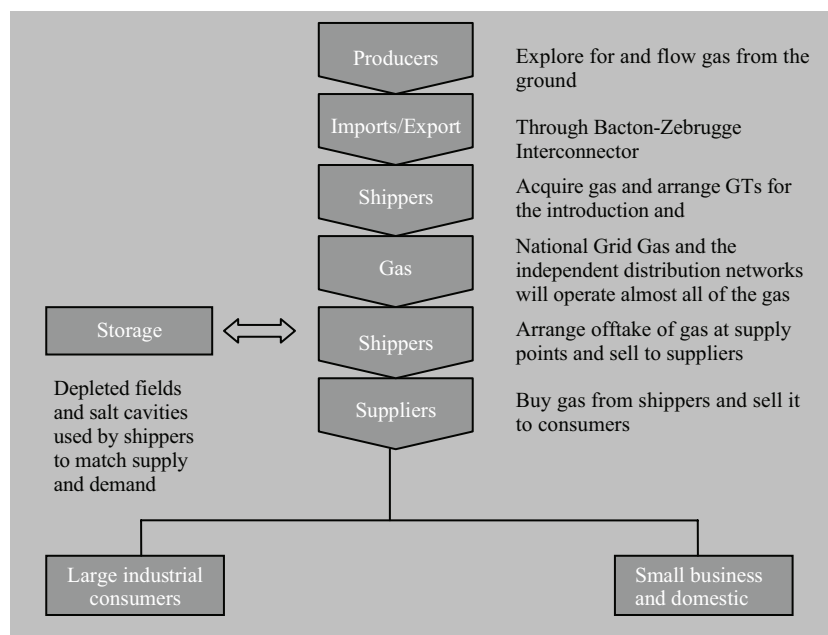
Overview of the Gas Industry in the UK

The UK is the largest gas market in Western Europe. Consumption has almost doubled over the last 20 years and gas represents more than 40 per cent. of the UK primary energy market consumption.

Gas supply chain in the United Kingdom

Consumers of gas can be broadly divided into domestic, industry, commercial and power generation. All classes of consumers have increased their demand in the last 20 years, but none more so than the relatively new market of gas-fired power generation.

The current industry structure has 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 key elements in the gas supply chain in Britain from beach terminal to consumer are summarised in the flow diagram below.



Producers

Producers explore for gas, drill wells, and flow the gas out of the ground. Although almost all of the producers operate offshore and transport the gas to the coast of Britain, gas is also received from three small onshore fields and through the Bacton-Zeebrugge Interconnector from mainland Europe.

The upstream market is undergoing significant change. There are two new gas pipeline interconnector projects which will connect Balgzand in the Netherlands with Bacton (the “BBL Line”) with a capacity of up to 16 billion cubic metres (“bcm”) per year and the Ormen Lange project which will deliver up to 24 bcm per year from the Ormen Lange field in Norway to the Easington terminal. The Bacton-Zeebrugge Interconnector is now completed and is fully operational, allowing reverse flow (i.e. into the UK) capacity to increase from 8.5 to 25 bcm per year.

Additionally, there are a number of large liquefied natural gas (“LNG”) re-gasification terminals either operational or under development which will enable gas produced overseas to be introduced into the system. The Isle of Grain facility is already operational and new facilities are under construction at Milford Haven, Dragon LNG (also at Milford Haven) and Canvey Island. Other facilities are planned.

Shippers

Shippers buy gas from producers at the beach, pipeline and LNG terminals. They then contract with gas transporters (“GTs”) to transport the gas to consumers’ premises (or supply points), where shippers sell the gas to suppliers. Shippers may also store gas with a storage operator to balance their supply and demand.

All shippers require a licence from the Authority. This licence, *inter alia*, requires a shipper to act in a manner that is non-prejudicial to the GT pipeline network.

Suppliers

The suppliers buy gas from shippers and sell it to power generators and industrial, commercial and domestic consumers. Suppliers also require a licence from the Authority.

Gas transporters

The gas transporters (“GTs”) operate pipeline networks to transport gas within Britain. National Grid Gas is by far the largest GT in Britain and owns, operates and develops the substantial majority of the gas transmission and distribution system. There are two other GTs operating three other DNs. A consortium of Scottish and Southern Energy, Ontario Teachers Pension Fund and Borealis Infrastructure acquired the Scottish and Southern DNs. A consortium led by the Macquarie European Infrastructure Fund acquired the Wales and West DN. Other independent GTs operate small transportation networks, which in total connect approximately 400,000 consumers; these are usually connected to the DNs.

As with shippers and suppliers, all GTs require a licence from the Authority. The GT is required to operate its pipeline network in an efficient, economical and safe manner and its licence also requires it to prepare a network code, which defines the terms and conditions under which gas is transported. The requirements of the Gas Act (as defined in “Gas Transportation Regulation” below) mean that a single company cannot conduct both transportation and supply activities. Where these activities are under the same business group, transportation and supply must be conducted by different legal entities.

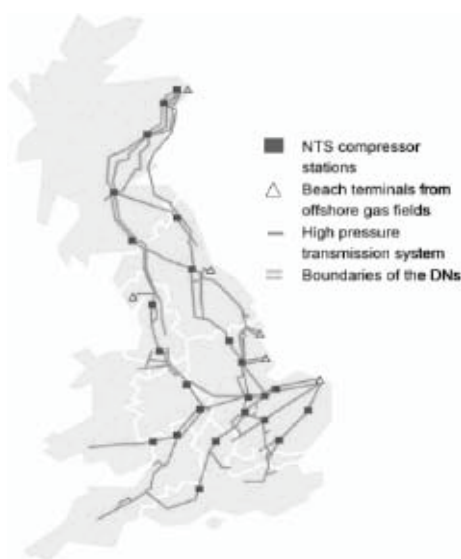
All GTs receive transportation charges from shippers for the use of its pipeline system. The majority of the charges consist of a capacity component for a share of the pipeline capacity with a much smaller commodity component based on the daily volume of gas transported.

Gas transportation system

National Grid Gas’s gas transmission and distribution network comprises the NTS and four regional DNs.

The NTS

The NTS transports gas from six beach terminals (which also currently comprise the terminals for pipeline interconnectors) and the new LNG re-gasification facilities around the coast of Britain (and three small onshore fields) to more than 140 sites at which gas is offtaken to serve the DNs, power stations, large industrial consumers and the interconnectors.



Graphic source: Ofgem

The NTS comprises approximately 6,400 kilometres of pipelines operating at pressures up to 85 barg (85 times normal atmospheric pressure). There are 24 compressor stations to maintain pressure and drive gas through the system.

The operation and control of the NTS to ensure the delivery of gas in a safe, efficient and reliable manner is conducted remotely from a national control centre.

DNs

The eight regional DNs take gas from offtakes, NTS exit points at which gas flows from the NTS into a DN. The gas is then transported to approximately 21 million business and home consumers via approximately 275,000 kilometres of pipelines, mains, and service pipes, operating at pressures of up to 85 barg.

The DN transportation assets encompass the complete pipe network from the offtakes to the emergency control valve, which is located immediately before the gas meter in the consumer's premises.

National Grid Gas provides the system which NGN uses to manage the operation and control of the gas transported through the network by virtue of system control functions under the terms of the SOMSA agreement. A number of other services agreements exist between National Grid Gas and each DN in order to facilitate business operations.

LDZs

Each GT is required by its GT Licence to publish a Network Code which forms the basis for DNs' contractual relationship with the shippers whose gas they transport. Each DN has published a short form Network Code which incorporates the terms of a Uniform Network Code common to all DNs. Gas distribution under the Uniform Network Code is divided into 13 geographical areas known as local distribution zones ("LDZs") which are delineated for balancing purposes.

The eight DNs and 13 LDZs



The LDZs are largely discrete pipe networks delineated by metered offtakes from the NTS.

Overview of NGN

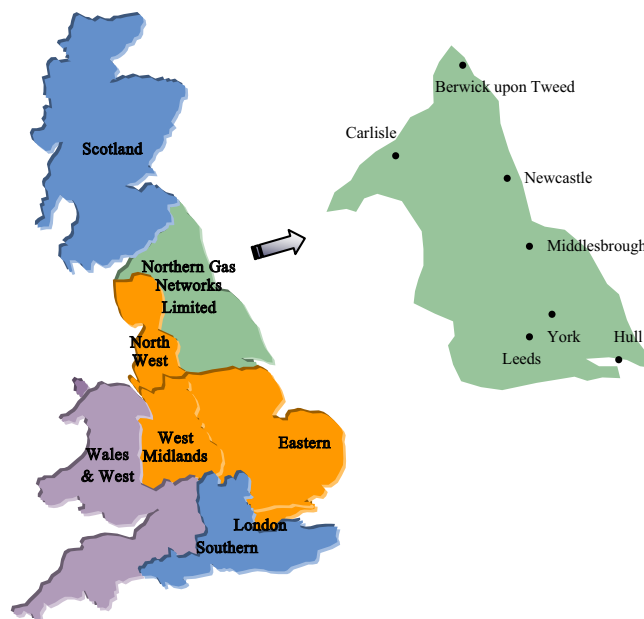
Geographic location

NGN bought the North of England DN from National Grid Gas in June 2005. It is located in the North of England and it extends south from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. NGN borders the Scotland, North West and East of England DNs.

The DN is primarily rural but has a few urban areas; Leeds, Bradford, Newcastle and Middlesbrough.

Geographical representation of Northern Gas Networks

Geographical area covered by Northern Gas Networks



Consumer profile

NGN's area covers a total of 6.7 million inhabitants. NGN has around 2.5 million customers, of which close to 98 per cent. are domestic users representing about half of the total gas demand. The remaining 2 per cent. of customers are industrial and commercial clients which, given their larger demand per client, comprises the remaining half of the total gas demand.

Description of assets

NGN's assets comprise all assets required to transport gas from the NTS offtake to the emergency control valve, which is typically located at consumers' premises immediately before the consumer's meter.

The assets owned by each DN include:

- the pipeline infrastructure;
- the leasehold and freehold property;
- experienced management and workforce; and
- the contracts, intellectual property rights.

Procedures and licence to run the network

NGN receives gas from the NTS at offtakes, which are exit points at which gas flows from the NTS into the DN, and is responsible for the flow of gas in its area. The gas is then transported to approximately 2.5 million supply points via pipelines, mains and service pipes. The offtakes contain instrumentation and telemetry equipment to enable remote monitoring and control of the gas flows. NGN 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.

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.

Operation and development of the gas network

As the volume of gas conveyed through the pipe network fluctuates during the course of the day, it is critical that NGN is able to maintain gas supply to all parts of the system under peak local demand condition. Under its GT Licence, NGN is required to ensure that the pipeline system is able to meet the peak day demand from firm customers in its region in a year which would not be exceeded more than once in a 20 year period, based on 50 years of historical information, known as “1-in-20” peak day demand. The process by which the pipeline system is 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, are used to aid network planning.

NGN 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 and pressure management) and certain monitoring equipment. This function is currently carried out by National Grid Gas under contract to NGN.

Operational structure

NGN has adopted an innovative business model within the gas industry. The roles of asset services have been legally separated and outsourced from the core business. This outsourcing arrangement provides defined targets against specific activities and there are incentives for outperformance in each operational area.

The operation and maintenance of the network, as well as the responsibility for implementing the capital expenditure (“Capex”) and replacement expenditure (“Repex”) programme (which replaces iron mains with polyethylene pipes) and connections work (the “Asset Services”), has been contracted out to UUOL on an exclusive basis under the terms of an ASA which expires on 31 March 2013. UUOL’s costs of providing the Asset Services are passed through to NGN, subject to the payment of bonus and penalty payments where the costs are respectively below or above agreed target levels. NGN retains responsibility for developing policies and for dealings with the Authority and the HSE and overall responsibility for the management of NGN’s assets.

The Asset Services must be performed in accordance with, amongst other things, law, industry documents, the Safety Case, commercial agreements of NGN and best industry practice. UUOL has applicable incentives to meet certain key performance indicators which are generally linked to NGN’s regulatory objectives. NGN has the right to terminate the ASA in certain circumstances including persistent and material breach, subject to cure periods. Arrangements have been put in place to ensure that the staff required to operate the network will be available to NGN on termination of the ASA.

The ASA defined the respective roles of NGN, as asset owner, and UUOL, as asset operator, in relation to a range of activities associated with the operation of the DN. Under the ASA the respective roles of NGN and UUOL are as follows:

<i>NGN</i>	<i>UUOL</i>
<ul style="list-style-type: none"> • Regulation – Ofgem Licence and Uniform Network Code • HSE Safety Case • Finance 	<ul style="list-style-type: none"> • Operations and maintenance activity
<ul style="list-style-type: none"> • Treasury 	<ul style="list-style-type: none"> • Emergency Services • Agree and deliver capital and replacement expenditure programmes • Deliver metering and other non-formula activities
<ul style="list-style-type: none"> • Legal 	<ul style="list-style-type: none"> • Manage NG services through Network Services Agreements (NSAs) • Management of third party contracts and suppliers
<ul style="list-style-type: none"> • Communications and public relations 	<ul style="list-style-type: none"> • Customer service and complaints handling • Management of highways and street works legislation
<ul style="list-style-type: none"> • Managing the Operator through the ASA • Managing NG relationship 	<ul style="list-style-type: none"> • Operational HSE • Connections delivery • Communications and public relations • Fleet management
<ul style="list-style-type: none"> • Revenue and gas throughput • Procuring gas for shrinkage gas • Managing xoserve arrangements • Establish and agree the operating capital and replacement workload and expenditure budgets • Distribution of technical standards • Pensions liabilities/assets • Contracting with gas shippers for use of NGN systems • System operations and control 	<ul style="list-style-type: none"> • Property and facilities management

Services agreements with National Grid Gas and its affiliates

At the time of the sale of the 8 DNs, NGN entered into a number of Network Services Agreements (“NSAs”) with National Grid Gas for them to provide various services to NGN following the transfer of the business under the Hivedown Agreement (as defined in “Risk Factors” above). These NSAs were designed to enable NGN to carry on the gas transportation business while either establishing its own capacity to carry out the relevant service or to source services from elsewhere. Since June 2005 a number of these NSAs have ended with NGN taking those services in-house, with the remainder still being provided by National Grid Gas.

As at March 2010 these contracts remain in place covering system operation services, emergency call handling and various transmission services. The NSAs are for periods between 12 months and 5 years, and contain various terms and conditions including termination rights in favour of NGN, except for the call handling services. A Call Handling Services Agreement has been entered into with National Grid Gas for a five year period effective from 1 April 2008. National Grid Gas is under a statutory obligation to provide a national emergency telephone number service.

NGN has also entered into an Agency Services Agreement with xoserve Limited, discharging a licence requirement, in relation to the provision of billing and other administrative services.

Gas Transportation Regulation

Legislation

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 by the Gas Act 1995, the Utilities Act 2000 and the Energy Act 2004) (“**Gas Act**”). Section 5 of the Gas Act prohibits the transportation of gas in pipes without a GT Licence, subject to certain exemptions.

The Energy Act 2004 brought about a number of changes to the regulation of the gas market including, among others: (i) the creation of a special administration regime (see “*Risk Factors — Special Administration*”); (ii) the establishment of a mechanism to appeal certain decisions made by the Authority to the Competition Commission; (iii) the imposition of a duty on the Secretary of State and the Authority to have regard to the principles of best regulatory practice in carrying out their functions under the Gas Act; (iv) the introduction of a fee raising power enabling the Secretary of State to charge for specific services in relation to, among other things, the conveyance, storage or processing of gas; and (v) the granting of a power to allow the Authority when entering information on registers it is required to maintain pursuant to the Gas Act, to exclude details in certain circumstances.

Pursuant to the Gas Act, NGN has an obligation (amongst others) to:

- develop and maintain an efficient and economical gas pipeline system in its authorised area;
- comply with reasonable requests to connect premises or pipelines and convey gas, so far as it is economical to do so;
- facilitate competition in the supply of gas; and
- avoid any undue preference or undue discrimination in the connection of premises, or pipe-line systems, to its pipe-line system and in its terms for the conveyance of gas.

The GT Licence

NGN operates its business under a GT Licence from the Gas and Electricity Markets Authority (the “**Authority**”) pursuant to the Gas Act. NGN’s GT Licence was granted on 5 November 2004 and is subject to termination on not less than 10 years’ written notice, such notice not to be served before 22 August 2011. The Authority can revoke the licence by giving no less than 30 days’ notice in writing upon the occurrence of certain events, summarised below:

- (a) it agrees with the Authority that it should be revoked;
- (b) the licence fee is not paid within 30 days after the due date and remains unpaid 14 days after notice from the Authority (which notice cannot be served before the 16th day after the due date);
- (c) it fails to comply with a final or provisional enforcement order under the Gas Act within three months after the Authority has notified it of such failure (which notice cannot be given before NGN’s right of appeal has expired);
- (d) it fails to pay any financial penalty to the Authority by the due date and it remains unpaid three months after the Authority has given notice (which cannot be given before NGN’s right of appeal has expired);
- (e) it fails to comply with an enforcement order made under Section 34 of the Competition Act 1998 or an order made under certain other legislation;
- (f) it ceases to carry on business as a gas transporter; or
- (g) it becomes insolvent by reference to certain specified circumstances, unless the prior written approval of the Authority was given.

Under the conditions of its GT Licence, NGN is (amongst other things):

- prohibited from disposing of its regulated assets without the prior approval of the Authority;

- prohibited (with only very limited exceptions) from diversifying away from its regulated activities of gas transportation, metering, and meter reading;
- prohibited from giving any cross subsidy to, or receiving any cross subsidy from, an affiliate;
- required at all times to ensure that it has sufficient resources available to it as to ensure that it is able to carry on its gas transportation business in a proper and efficient manner and to comply with its licence and obligations under the Gas Act;
- required to certify annually to the Authority that it has sufficient financial resources and facilities to enable it to carry on its transportation business for a period of 12 months from the date of the certificate;
- required to certify to the Authority that it is compliant with certain key aspects of its GT Licence before declaring or making any dividend/other form of distribution;
- prohibited from creating, continuing or permitting to remain in effect any indebtedness, creating any security or guaranteeing any obligation except on an arm's length basis, on normal commercial terms and for the purposes of the transportation, metering, meter reading or certain *de minimis* businesses without the Authority's consent;
- prohibited from transferring cash or assets to affiliates except by dividends or other distributions out of distributable reserves or other specifically permitted means; and
- required to use all reasonable endeavours to maintain an investment grade credit rating from one of the three major credit rating agencies.

In the event that any of NGN's credit ratings fall to the lowest level of investment grade and is on either review for a possible downgrade or on Negative Watch or on Negative Outlook, there is a lock up on funds (with certain exceptions) which prevents NGN moving resources of an affiliate without the express consent of the Authority.

In the event of actual or impending insolvency of a licence holder, the Energy Act 2004 provides the Secretary of State (or the Authority, with the Secretary of State's consent) with the authority to apply to the High Court for an order appointing a Special Administrator. This appointment will ensure that any other forms of insolvency do not prevent the ongoing safe and efficient transportation of gas. The Special Administration order will allow the licensee to be funded or sold as a going concern as deemed most appropriate at the time.

Enforcement

In addition to the Authority's powers to revoke NGN's GT Licence in the circumstances specified above, if NGN fails to comply with its GT Licence or certain statutory duties the Authority may impose a provisional or final enforcement order. NGN would have a right of appeal to court. These orders are enforceable by injunction and any person who suffers loss as a result of NGN contravening an order may make a claim against NGN. Additionally, failure to comply with an enforcement order within three months after notice from the Authority of such failure may lead to revocation of NGN's GT Licence.

Independently, and without first being required to make an enforcement order, the Authority also has powers to levy penalties of up to 10 per cent. of NGN's turnover for any breach of its GT Licence, certain statutory duties or certain standards of performance. NGN would have a right of appeal to a court.

Competition law

The Authority has concurrent powers with the Office of Fair Trading ("OFT") to:

- (a) carry out investigations, both on its own initiative and in response to complaints, into possible anti-competitive practices in relation to the shipping, conveyance or supply of gas and activities ancillary thereto under the Competition Act 1998 and Articles 81 and 82 of the EC Treaty. The "Chapter I" prohibition under the Competition Act 1998 and Article 81 of the EC Treaty prohibit agreements which may prevent, restrict or distort competition within, respectively, the UK and the EU. The "Chapter II" prohibition under the Competition Act 1998 and Article 82 of the EC Treaty prohibit conduct by one or more undertakings which amounts to the abuse of a dominant position in a market, respectively, in the

UK or in the EU. As part of an investigation, the Authority has the same powers as the OFT to require production of documents and information and to search premises;

- (b) impose interim measures during an investigation to prevent serious and irreparable damage; give and enforce directions to bring an infringement to an end; and accept commitments that are binding on an undertaking. Any agreement that infringes Chapter I and Article 81 is automatically void and the Authority may impose financial penalties of up to 10 per cent. of turnover on infringing undertakings; and
- (c) make a market investigation reference to the Competition Commission where there are reasonable grounds for suspecting that competition has been prevented, restricted or distorted by any feature of a market in the UK for goods or services so far as it relates to the shipping, conveyance or supply of gas and activities ancillary thereto. Where the Competition Commission decides that there is an adverse effect on competition in relation to the market it has investigated, it has the power to take action to remedy, mitigate or prevent the adverse effect concerned.

Connections

The Gas Act and the GT Licences impose duties on GTs 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, gas transporters are obliged to connect premises and provide and install assets necessary for the connection of the premises. The gas transporters 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.

All GTs are subject to overall standards of performance in relation to gas connections under the Gas (Standards of Performance) Regulations 2005 and the GT Licences. These include target deadlines in respect of the provision of quotations, completion of connections, replies to land enquiries and provision of dates for commencement and completion of works. NGN has agreed incentive arrangements in the ASA with UUOL aimed at ensuring compliance with these regulations. Gas transporters must also provide a scheme through which customers can challenge the accuracy of quotations, and, in the event that the gas transporter 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.

Meter reading services

The GT Licences provide details of certain terms that must be provided by gas transporters, such as the Issuer, to a supplier before attending to a request from the supplier in relation to 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. Gas transporters 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 gas transporters 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 Issuer has been granted a consent by the Authority which relieves it of the majority of these obligations for non-daily metered supply points.

Health and safety regulation

Gas Safety Management Regulations 1996

The HSE is responsible for regulating safety matters relating to the operation of gas transportation infrastructure. The Gas Safety Management Regulations 1996 ("GSMR") are concerned with the safe

management of natural gas flow through pipelines supplying customers. The GSMR requires that no entity shall convey gas in a network unless:

- the entity has prepared a safety case in accordance with Schedule 1 of the regulations, and the safety case has been approved by the HSE. Once approved, there is a duty to operate in line with the safety case;
- where any other party is conveying gas in a network, that there is a sole Network Emergency Coordinator (“NEC”). Nothing prevents a network gas conveyer from also being the NEC.

To ensure that safety is regularly reviewed and maintained, the GSMR require that safety cases be kept up to date. Where a revision of operations would make a safety case materially different from the last accepted version, the GT is required to resubmit the safety case and have it accepted by the HSE before the changes can be implemented. In addition, each GT is required to carry out a thorough review of its safety case at least every three years, and provide the HSE with a written report of the review, even if there are no material changes.

NGN obtained approval from the HSE in May 2005 for the amendments to the safety case for its business and NGN currently operates its Safety Case v 6.4 as accepted by the HSE in September 2009.

The Pipelines Safety Regulations 1996

NGN is required to comply with the requirements of the Pipelines Safety Regulations 1996 (“PSR”), which place a number of obligations on pipeline operators relating to safety in the design, construction, installation, operation, maintenance and decommissioning of pipelines. A significant amount of NGN’s network was constructed from ductile iron and cast iron. It has been recognised by the gas industry that these pipes are at risk of failure and could result in hazardous conditions should a gas escape occur. In total 91,000 kilometres of “at risk” iron pipes are still to be replaced across all the distribution networks. Typically, pipes within 30 metres of buildings represent the greatest hazard. In 2001, the HSE agreed with National Grid Gas on the detail of its accelerated programme to replace all at risk gas mains within the next 30 years, with a fundamental review by the HSE at the 5 year point. These obligations in respect of the North of England DN have been passed on to NGN.

Public reported gas escapes

NGN 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. National Grid Gas operates a national telephone number where escapes may be reported, which receives such calls and then transmits them, in the case of those occurring in NGN’s authorised area, to NGN so that it can provide a first response. There is no government statute that indemnifies DNs from claims that might result from losses due to actions or inactions by the gas transporters in responding to gas escapes. A DN operator can face fines and/or criminal charges for failing to comply with the health and safety standards that govern such operator. In the event a third party sustains a loss, a DN operator can face civil proceedings by the third party to recover costs.

Regulatory price controls

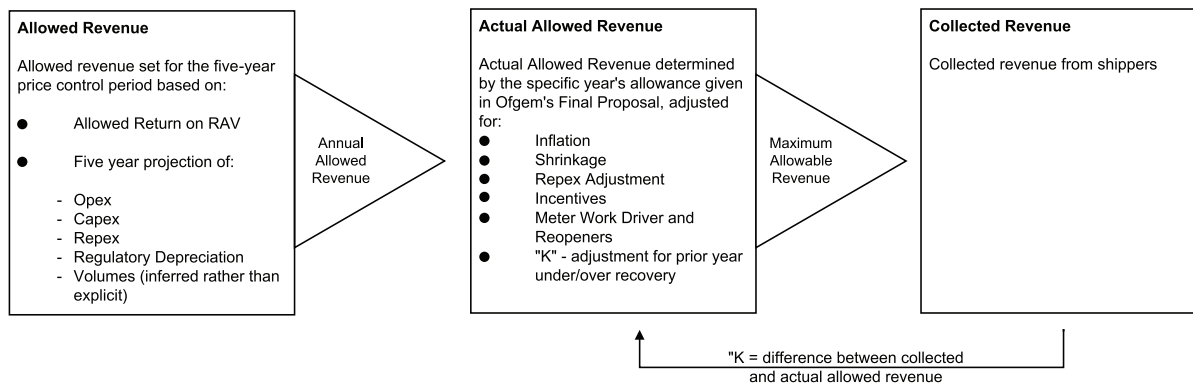
NGN’s revenues are subject to price controls that will be determined by five yearly price reviews. The current pricing period commenced on 1 April 2008 and is scheduled to expire on 31 March 2013, however the basis of calculating the allowed revenue for the current and forecasted Price Control Periods (“PCPs”) is the widely accepted traditional price control “building blocks” methodology.

Essentially, the methodology is as follows:

- Return on average RAV
- + Regulatory depreciation
- + 50 per cent. Repex
- + Opex
- = **Revenue requirement**

However, the allowed revenue will be adjusted for items such as over/under performance through the incentive mechanisms, over/under spend on investment, and recoverability/pass through of other associated costs.

Revenue calculation mechanism



Allowed income

The Authority's price control sets allowed revenues to enable DNs to fund:

- **Opex:** Day-to-day costs of maintaining and running the DNs. This expenditure can be divided into "controllable costs", such as staff costs and payments to subcontractors, and "less controllable costs" which constitute prescribed rates and the Authority's GT Licence fee and contributions to the NTS pension scheme.
- **Controllable costs:** These are incentivised whereas less controllable costs are passed through.
- **Capex:** Expenses required to improve and extend the capabilities of the network.
 - o Projected new Capex less customer contributions is added to the RAV. This expenditure is then remunerated through a depreciation allowance and a return on the RAV.
 - o The Authority's view is that the Licensee will retain/absorb 36 per cent. of any under/overspend vs. the set allowances. This is equal to five years' worth of corresponding return and depreciation plus an additional, DN specific, incentive based on the Authority's view of the robustness of the capital investment forecasts provided during the price review process. The 36 per cent. is calculated on an NPV basis and ex post adjustments are made to RAV and revenue to produce the desired effect. Any adjustments to revenue will occur after March 2013.
- **Repex:** Replacement of iron mains and the service connections attached to them to improve the safety of the network. When determining Allowed Revenue, 50 per cent. of replacement costs are expensed and 50 per cent. of costs are capitalised in the RAV.
- **Regulatory depreciation:** The Capex that has been added to the RAV is depreciated for regulatory purposes over 28 years for assets added prior to April 2002 and 45 years for assets added subsequently.
 - o Regulated depreciation in the current price review period represents approximately 3.5 per cent. of RAV (average depreciation of 28 years).
- **Allowed return on RAV:** The Authority estimates the level of return that is required by the financial markets to provide capital to a regulated gas distribution company. This is calculated using the weighted average of the cost of debt and equity finance (primarily based on the capital asset pricing model) including an assumption about the appropriate level of sustainable leverage for the company.
 - o The RAV for gas distribution has been split amongst the eight DNs as part of the introduction of separate price controls. The allocation of RAV between DNs has been derived on the basis of transportation charge revenue and cash flow, rather than on the basis of physical assets, in order to avoid material variations in amounts charged by the individual DNs.

RAV is driven by:

- o Investment (allowed Capex + 50 per cent. of allowed Repex less any disposals)
- o Inflation adjustment (based on RPI)
- o Regulatory depreciation
- *Tax*: For the 2008-2013 price control, the Authority changed its methodology of providing an allowance for tax. It is now based on an explicit tax projection using notional gearing and interest costs, rather than being inferred by using the pre-tax rate of return when setting Allowed Revenue.

Actual allowed revenue

The principal restriction contained in the licence ensures that DNs are not allowed to earn revenues in excess of the Allowed Income for regulated activities.

The Authority published its price control for current DNs, for the period from April 2008 to March 2013 in December 2007. The main features of the DNs current price control are:

- An annual revenue allowance that will adjust by RPI. All productivity improvement assumptions are included in the underlying annual allowances. Hence, whilst the current formula used is slightly different from the previous RPI-X formula, the underlying philosophy is the same.
- Revenues are set on the basis of a 4.94 per cent. vanilla (post-tax equity, pre-tax debt) real rate of return on the RAV.
- A number of incentives to focus DNs on leakage reduction, innovation, sustainable development, corporate responsibility, exit and interruption reform. A revenue driver to compensate for stranded costs due to loss of meterwork contracts which were previously carried out by the DN's emergency workforce.
- A pass-through of prescribed rates on the DN's assets, which are set by the UK Government, and GT Licence fees, set by the Authority.
- A correction factor, K, that adjusts the price control for any previous under/over-recovery of allowed revenue, with an adjustment for interest.

Repex adjustment:

In September 2001, following a review by the HSE of the replacement programme, National Grid Gas announced a long-term programme to replace with polyethylene ("PE") pipes all metallic mains within 30 metres of premises within the next 30 years.

- An incentive mechanism relating to most of the mains and services Repex incurred in any one year that shares efficiency savings between shippers and Gas distribution is now in place.
- Mains and services replacement incentive mechanism (MRSA).

Allowed revenue

The gas distribution network business (like the gas transmission, the electricity transmission and distribution and water distribution businesses) is a natural monopoly. In order to develop and maintain an efficient and economical pipeline system, a stable and transparent regulatory environment has been put in place, with the Authority being the regulatory agency ensuring that the providers' monopoly power is not abused.

The Authority has a responsibility for ensuring that security of supply is maintained and that operators have sufficient resources to carry out their functions. The Authority, through the operation of a price control, sets the allowed income of the regulated business.

This revenue should enable the management of the regulated company to fund its operational, capital and replacement expenditure and to earn a return on the RAV. The price control also features incentives which reward out-performance with increased operating profit and conversely those whose performance is poor over activities they control will struggle to earn the expected return on RAV.

Collected income

This represents the recovery of the allowed revenues through transportation charges to shippers for the delivery of gas.

Transportation charges billed to shippers include:

- Capacity: — Charge based on share of pipeline booked by shippers.
— From 1 October 2008, provides 67 per cent. of total collected formula revenue
- Commodity: — Charge based on volume of gas transported on a daily basis.
— This revenue varies with actual volume
— From 1 October 2008, provides 3 per cent. of total collected formula revenue
- Customer: — Charges based on relative size of customer based on registered maximum capacity
— Provides 30 per cent. of total collected formula revenue

Commencing from 1 October 2008, the changes in charging structure have significantly reduced the volume related swings in collected revenue. Hence, the month by month profile of revenue will be much flatter as the impact of seasonality and weather patterns is materially reduced.

From 1 April 2009, the distribution charges will be re-set every 1 April, rather than 1 October as was previously the norm.

Pension costs

The Authority has stated that customers of network monopolies should expect to pay the efficient cost of providing a competitive package of pay and other benefits, including pensions, to the staff in line with comparative benchmarks.

On 2 August 2004, the Authority issued a position paper on pensions, which was supplemented on 9 August 2004. In the supplement, the Authority stated that contributions made to an occupational pension scheme in respect of attributable DN employment performed in the future will be eligible for recovery from future price controlled revenues. To the extent that, in any particular period, the amounts contributed exceed or falls short of the amounts recovered (i.e. the allowance), the excess or the shortfall will be taken into account in setting subsequent controls.

This position was upheld in the 2007/08 and 2008-13 price controls, where the amount contributed in excess of the pension allowance in the period 2002-2008 is recovered through additional allowed revenue during the current price control.

In December 2009, the Authority updated its position statement on pensions and will only fund pension deficit recovery over a notional 15 year period rather than the specific period agreed by the pension trustees. Importantly, however, the Authority has maintained its position of fully funding deficit recovery costs over a longer time frame. Ongoing pension costs will be subject to efficiency benchmarking against the other GDNs.

Taxation

UK taxation

The comments below, which are of a general nature, are not intended to be exhaustive, are based on current United Kingdom law and HM Revenue and Customs practice and describe certain aspects of the United Kingdom tax treatment in respect of the Bonds. They relate only to the position of persons who are the absolute beneficial owners of the Bonds and Coupons and may not necessarily apply where the Issuer has been substituted by another entity as principal obligor of the Bonds pursuant to Condition 17 (*Substitution*). Some comments do not apply to certain classes of persons (such as dealers and persons connected with the Issuer) to whom special rules may apply or where the income is deemed for tax purposes to be the income of any other person. The comments below are not intended as tax advice and prospective holders of Bonds who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom are strongly advised to consult their own professional advisers.

Interest on the Bonds

1. Payments of interest by the Issuer on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax as long as the Bonds are and continue to be listed on a “**recognised stock exchange**” within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is such a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest may be paid on the Bonds by the Issuer without withholding or deduction for or on account of United Kingdom income tax.
2. Payments of interest may also be made without withholding or deduction for or on account of United Kingdom income tax to: (a) a company which either is resident in the United Kingdom, or (b) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits, or (c) a partnership each member of which is a company referred to in (a) or (b) above or a combination of the companies referred to in (a) or (b) above if, at the time the payments are made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner of the interest is within (a), (b) or (c) above, provided HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.
3. If neither of these exemptions apply, interest will generally be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HM Revenue and Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.
4. Bondholders who are individuals may wish to note that HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest on behalf of an individual. Information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.
5. Where the Bonds are to be, or may fall to be, redeemed at a premium as opposed to being issued at a discount, the any such element of premium may constitute a payment of interest and be subject to the UK withholding tax and reporting requirements outlined above.
6. The interest on a Bond issued by the Issuer has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment even where the interest is paid without withholding. However the interest is not chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency

in the United Kingdom in connection with which the interest, discount or premium is received or to which those Bonds are attributable (and where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest, discount or premium is received or to which the Bonds are attributable). There are certain exemptions for interest, discounts and premiums received by certain specified categories of agent (such as some brokers and investment managers). Bondholders should note that the provisions relating to additional amounts referred to in Condition 8 (*Taxation*) above would not apply if HM Revenue and Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, the provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

United Kingdom corporation tax payers

7. In general, Bondholders which are within the charge to United Kingdom corporation tax (including non-resident Bondholders whose Bonds are used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment) will be subject to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

Other United Kingdom tax payers

8. *Taxation of Chargeable Gains*

The Bonds will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of chargeable gains.

9. *Accrued Income Scheme*

On a transfer of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Chapter 2 of Part 12 of the Income Tax Act 2007, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Bonds are attributable.

Stamp duty and stamp duty reserve tax (“SDRT”)

10. No United Kingdom stamp duty or SDRT is payable on the issue, a transfer by delivery or redemption of the Bonds.

Payments in respect of the Guarantee

11. If NGN makes any payments in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) such payments may be subject to deduction of United Kingdom withholding tax at a rate not exceeding 20 per cent. subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other applicable exemption.

EU Directive on the Taxation of Savings Income

Under the Savings Directive on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident, or to certain limited types of entities established, in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other territories). A number of non-EU countries and territories have agreed to adopt similar measures to the Savings Directive.

Subscription and Sale

Barclays Bank PLC, Lloyds TSB Bank plc, Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc (together, the “**Joint Lead Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 17 March 2010, jointly and severally agreed to subscribe for the Bonds at the issue price of 98.443 per cent. of the principal amount of the Bonds, less certain commissions as agreed with the Issuer. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

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

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

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

United Kingdom

Each Joint Lead Manager has represented and agreed that:

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

General

Neither the Issuer nor NGN nor any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or NGN that would permit a public offering of the Bonds, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

General Information

1. Authorisation

- 1.1 The issue of the Bonds was duly authorised pursuant to a resolution of the Board of Directors of the Issuer dated 11 January 2010 and a written resolution of a sub-committee of the Board of Directors of the Issuer dated 11 March 2010. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds.
- 1.2 The giving of the Guarantee was duly authorised pursuant to a resolution of the Board of Directors of NGN dated 11 January 2010 and a written resolution of a sub-committee of the Board of Directors of NGN dated 11 March 2010. NGN has obtained all necessary consents, approvals and authorisations, in connection with the issue and performance of the Bonds and the Guarantee.

2. Listing

- 2.1 The listing of the Bonds on the Official List will be expressed as a percentage of their principal amount (excluding accrued interest (if any)). It is expected that admission to the Official List and to trading on the London Stock Exchange's Regulated Market will be granted on or about 24 March 2010 subject only to the issue of the Temporary Global Bond.
- 2.2 Estimate of total fees and costs relating to admission to trading is approximately £7,175.

3. Clearing Systems

- 3.1 The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. In relation to the Bonds, the ISIN is XS0494932741 and the Common Code is 049493274.
- 3.2 The Bonds are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Bonds are intended upon issue to be deposited with either Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the satisfaction of the Eurosystem eligibility criteria.

4. No significant change

- 4.1 There has been no significant change in the financial or trading position of the Issuer since 31 December 2008 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2008.
- 4.2 There has been no significant change in the financial or trading position of NGN since 31 December 2008 and there has been no material adverse change in the financial position or prospects of NGN since 31 December 2008.

5. Litigation

- 5.1 The Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have, or have had in the 12 months preceding the date of this Prospectus, significant effects on the Issuer's financial position or profitability.
- 5.2 Other than as disclosed in "*Risk Factors — Industrial diseases and employer's liability claims*" on page 11 of this Prospectus, NGN is not, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which NGN is aware), which may have or have had, in the 12 months preceding the date of this Prospectus, significant effects on NGN's financial position or profitability.

6. Accounts

The auditors of the Issuer and NGN are Deloitte LLP (chartered accountants and regulated by the Financial Services Authority). Deloitte LLP have audited the financial statements of the Issuer and NGN for the years ended 31 December 2007 and 31 December 2008, in accordance with United Kingdom generally accepted accounting standards and reported thereon, respectively, without qualification. The auditors of the Issuer and NGN have no material interest in either the Issuer or NGN.

7. U.S. Tax Legend

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

8. Documents

For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection at the offices of the Issuer and the specified office of the Paying Agent:

- (a) the Memorandum and Articles of Association of the Issuer and NGN;
- (b) the Trust Deed, which includes the Guarantee, and the Paying Agency Agreement; and
- (c) the audited financial statements of the Issuer and NGN for the years ended 31 December 2007 and 31 December 2008.

9. Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to the Bonds.

10. Joint Lead Managers transacting with the Issuer and NGN

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, NGN and their respective affiliates in the ordinary course of business.

REGISTERED OFFICE OF THE ISSUER

Northern Gas Networks Finance Plc
1100 Century Way
Thorpe Park Business Park
Colton
Leeds LS15 8TU

REGISTERED OFFICE OF NGN

Northern Gas Networks Limited
1100 Century Way
Thorpe Park Business Park
Colton
Leeds LS15 8TU

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

ISSUING AND PRINCIPAL PAYING AGENT

Royal Bank of Canada Europe Limited
71 Queen Victoria Street
London EC4V 4DE

LEGAL ADVISERS

To the Issuer and NGN as to English law

DLA Piper UK LLP
3 Noble Street
London EC2V 7EE

*To the Joint Lead Managers and the Trustee
as to English law*

Linklaters LLP
One Silk Street
London EC2Y 8HQ

AUDITORS

To the Issuer and NGN

Deloitte LLP
1 City Square
Leeds
LS1 2AL

