



# Northern Gas Networks

30 June 2012  
Investor Update

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# Executive Summary

# Our Vision

- To be benchmarked consistently by Ofgem and the HSE, in the top two comparable utilities on:

## EFFICIENCY

Ofgem have consistently ranked NGN as the most efficient Gas Distribution Network (GDN)

## SAFETY

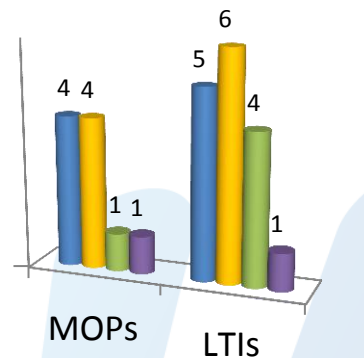
NGN's safety performance continues to be class leading and we continue to be viewed by the HSE as one of the best performing GDNs

## CUSTOMER SERVICE

Customer complaints show a downward trend. Customer satisfaction scores remain high although we continue to push harder to improve the service we deliver to our customers and improve our ranking

	Opex	Repex	Totex
2005/6	1st	1st	N/A
2006/7	1st	1st	N/A
2007/8	2nd	1st	N/A
2008/9	2nd	1st	2nd
2009/10	2nd	1st	1st
2010/11	2nd	1st	1st

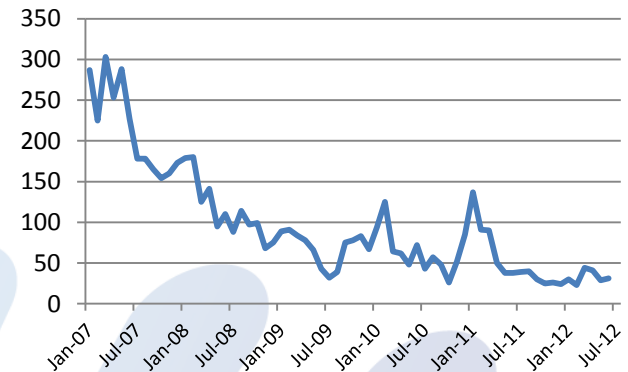
Source: Ofgem's revised benchmarking September 2012



■ 2009 ■ 2010 ■ 2011 ■ 2012\*

- MOPs – injuries to members of the public
- LTIs – lost time injuries to our employees and contractors

\* The score for 2012 is for the first 6 months of the year



Latest Ofgem surveys scores for the 3 months to June 2012:

- Emergency & repair – 8.8 out of 10
- Replacement – 8.4 out of 10
- Connections – 7.8 out of 10

# Summary of 2012 To-Date

## Operational:

- We are achieving all of our key internal calendar year operational KPIs at 30 June 2012
- Our key safety KPIs in 2012 remain class leading
- Customer service - work remains ongoing to achieve our customer service vision and climb the ranking charts. The latest customer satisfaction survey scores remain strong

## Financial:

- Strong financial performance across the first half of 2012 with growth compared to the prior half year position in revenue, EBITDA, PAT, and operating cash flows
- Net debt to RAV reduced to 63.4% at 30 June 2012, reflective of NGN's prudent leverage strategy
- Retention of strong and stable credit ratings (Moody's – Baa1 Stable/ S&P – BBB+ Stable)

## Regulatory:

- NGN has received initial RIIO-GD1 proposals from Ofgem and will respond to these proposals in September 2012, prior to receiving final proposals in December 2012
- The initial proposals continue to put NGN firmly at the efficiency frontier – we are the only GDN with a totex allowance for RIIO-GD1 higher than our actual cost in the current price control period

# Background



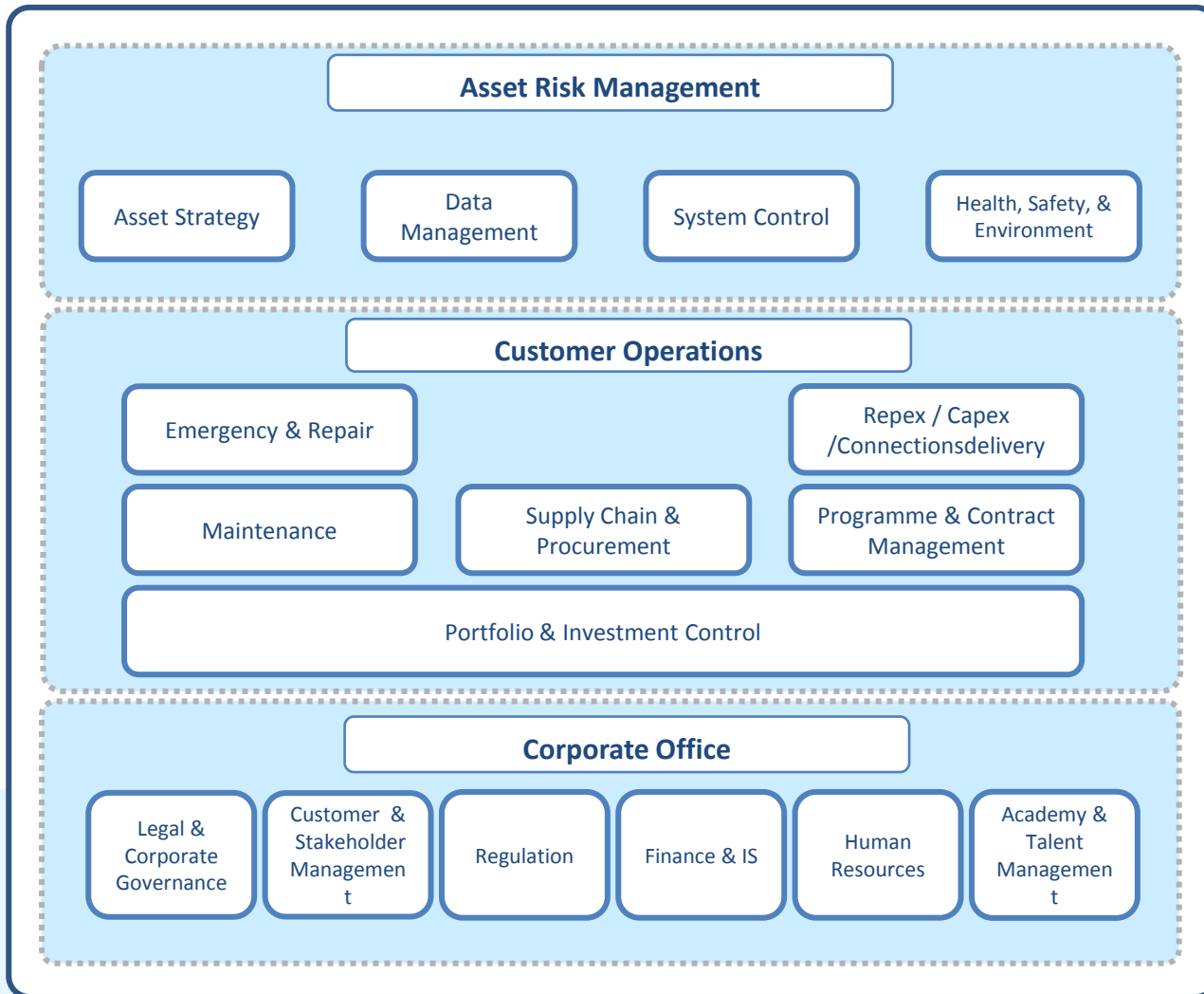
# Who We Are

- NGN is the company responsible for distributing gas to homes and businesses across the north of England, an area covering West, East & North Yorkshire, the North East and northern Cumbria, serving c11% of the geographic area of the UK mainland
- Our network comprises of 37,000km of gas pipes, and we operate and maintain c13% of the total gas pipe distribution infrastructure network of the UK (excluding Northern Ireland)
- We do not own the gas, we transport it on behalf of the companies who do, delivering it to users 24 hours every day
- NGN's geographical customer operational structure is a nine patch model
- This enables us to drive performance at a local level, importantly close to the customer and the asset, focusing leadership on the customer and efficiency, ensuring NGN has the right resource, in the right place, at the right time and at the right cost



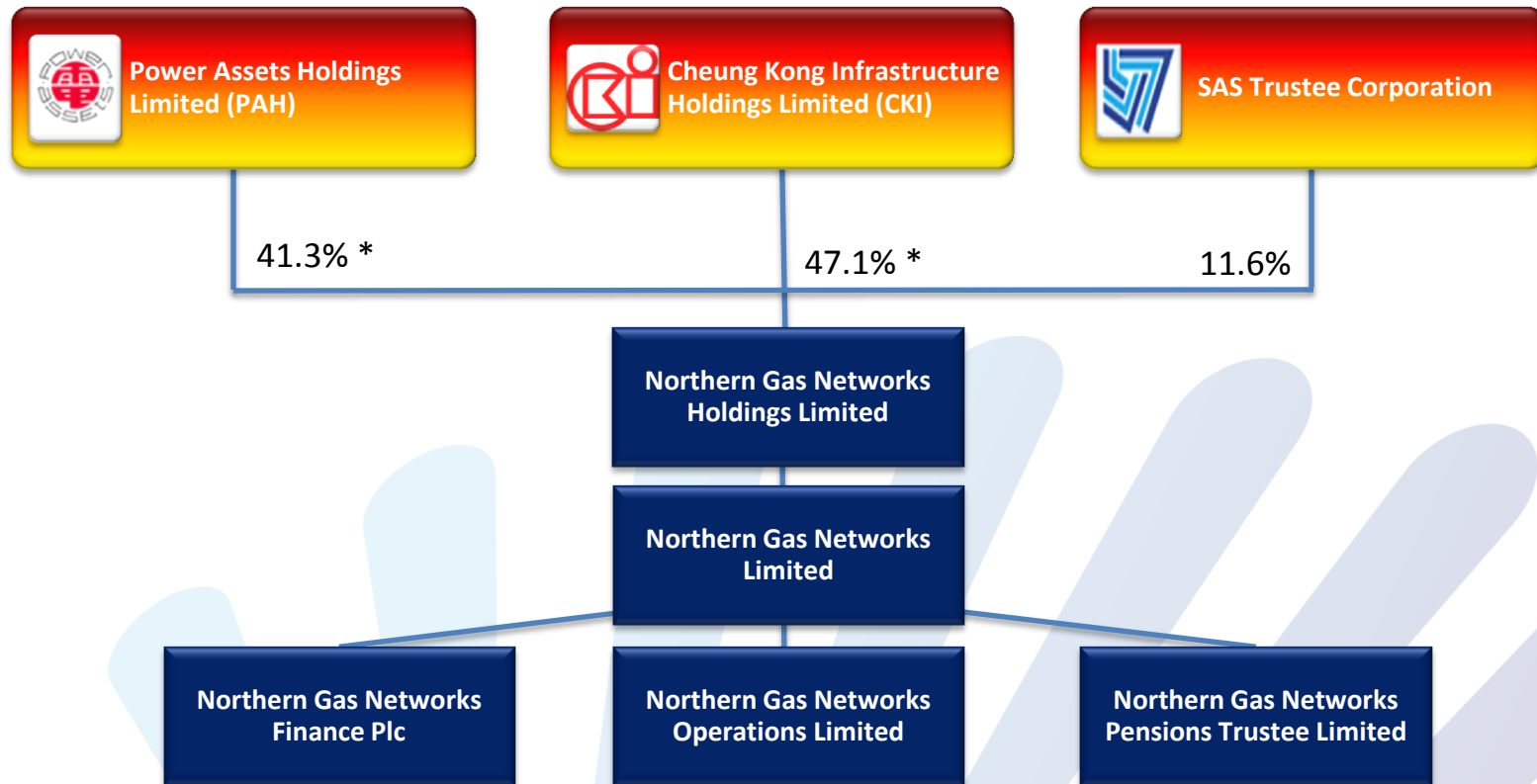
# Our RIIO Operating Model

Our integrated model which was implemented in 2011 has continued to evolve and now has two core targeted areas supported by our corporate office



# Ownership

- The NGN group is joint owned as shown below
- Power Assets Holdings Limited (PAH) and Cheung Kong Infrastructure Holdings Limited (CKI) are global investors, predominant in power and utility related businesses, listed on the Hong Kong Stock Exchange. They invested in the NGN group at inception in 2005
- SAS Trustee Corporation is a pension fund organisation who also invested in the NGN group at inception in 2005



\* Shareholdings are held through wholly owned subsidiaries

# CKI And PAH's Ownership Philosophy Remains Unchanged

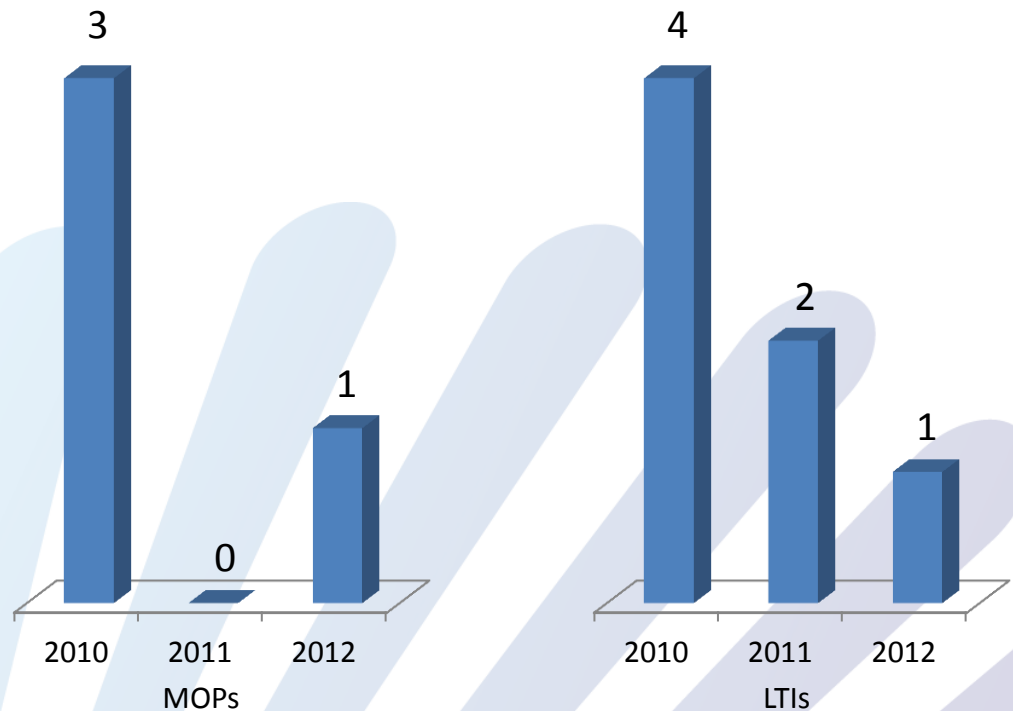
- Long term ownership and long term stewardship of assets
- CKI and PAH are continually looking to widen their experience in owning and managing utility assets particularly in the UK, as evidenced by the recent acquisitions of UK Power Networks, Northumbrian Water Group and the recently announced acquisition of Wales and West Utilities which will create additional obvious synergy benefits
- Focus is on predictable, low-risk businesses
- NGN's public and regulatory reputation is highly important to both management and the Shareholders and hence we have a strong emphasis on corporate governance and reputation with a robust internal control framework, underpinned by an extensive internal audit programme and audits from CKI and PAH to manage risk and ensure full data integrity
- NGN benefits from the support and financial backing of a strong group of Shareholders
- The Board comprises a strong combination of operational, management and financial experience
- All Shareholders have Board representation

# Operational Summary

# Operational Summary - Safety

- NGN continue to be class leading in safety performance with year to date injuries to MOPs of 1 and LTIs of 1
- NGN is the only gas distribution network to be accredited under both ISO 14001 and OHSAS 18001 in relation to health, safety and environment management systems

Six Month Performance



# Operational Summary - Gas Escapes

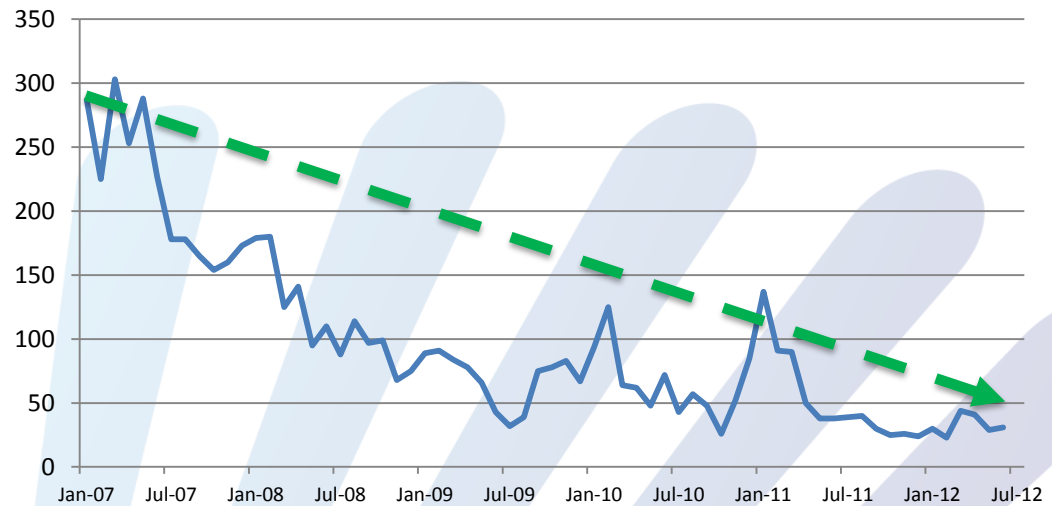
- We have delivered all of our 2011/12 key internal KPIs and as shown below we have had an excellent start to the 2012/13 regulatory year

KPI	6 months to June 2012	Internal Targets
Five connection KPIs Guaranteed Standards of Service (GS) (GS4, GS5, GS6, GS8, GS9 & 10)	99.4 – 100%	96.3%
Attending uncontrolled gas escapes within 1 hour	99.6%	97.3%
Attending controlled gas escapes within 2 hours	99.9%	98.0%
Write to customers giving 5 days notice of a planned interruption	96.4%	95.5%
Reinstate customer premises within 5 working days	99.7%	95.4%

# Operational Summary – Customer Experience



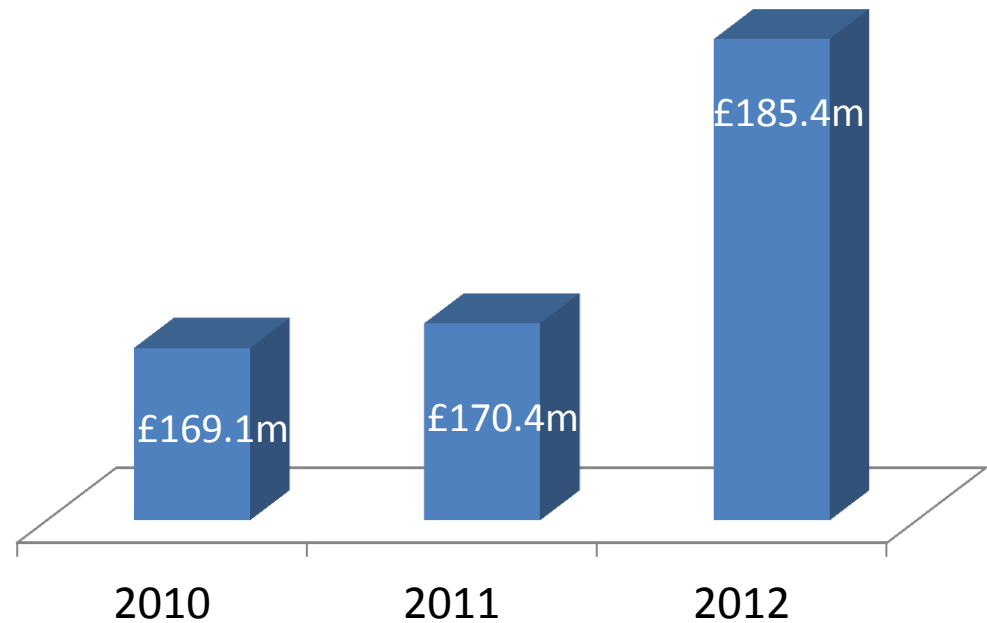
- Customer complaints remain low in the first half of 2012, and the improvement over the past few years is vast, as shown in the graph below
- Customer satisfaction survey scores in 2012 are improving and work continues to improve our ranking. Our latest set of quarterly scores are shown below:
  - Emergency & repair - 8.8 out of 10 (ranked 5<sup>th</sup>)
  - Replacement - 8.4 out of 10 (ranked 3<sup>rd</sup>)
  - Connections - 7.8 out of 10 (ranked 4<sup>th</sup>)



# Financial Highlights

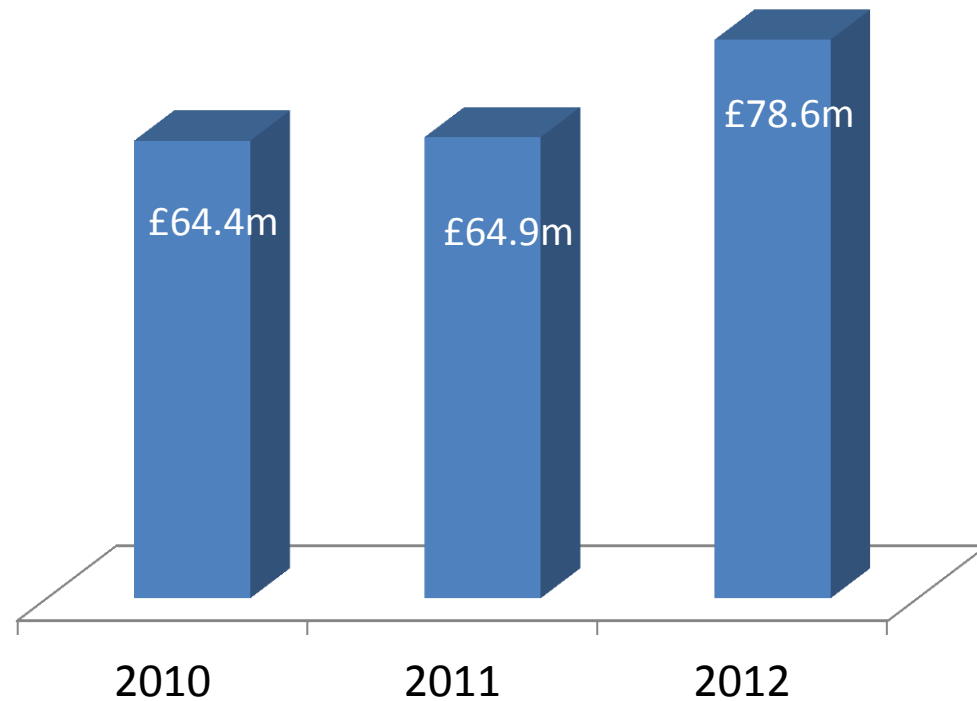
# Revenue

- Revenue during the first six months of 2012 shows growth of £15.0m on the same period of 2011
- Revenue primarily reflects formula revenue with growth in 2012 driven by increases in regulatory allowances and an April 2012 price change



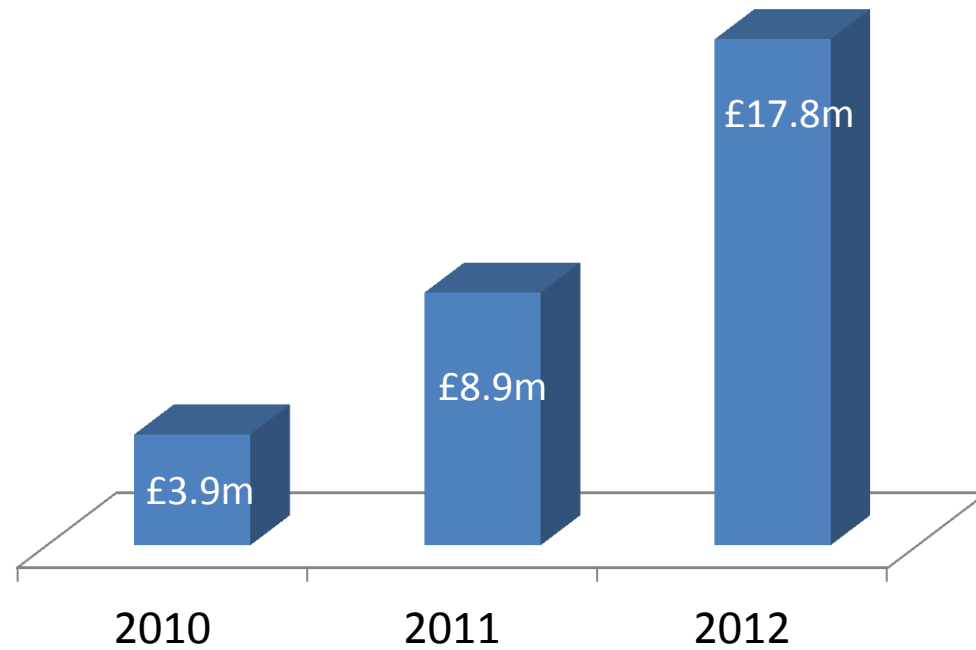
# EBITDA – UK GAAP

- NGN continues to deliver steady EBITDA growth
- EBITDA growth of £13.7m on prior year over the first 6 months of 2012 primarily due to revenue growth of £15.0m



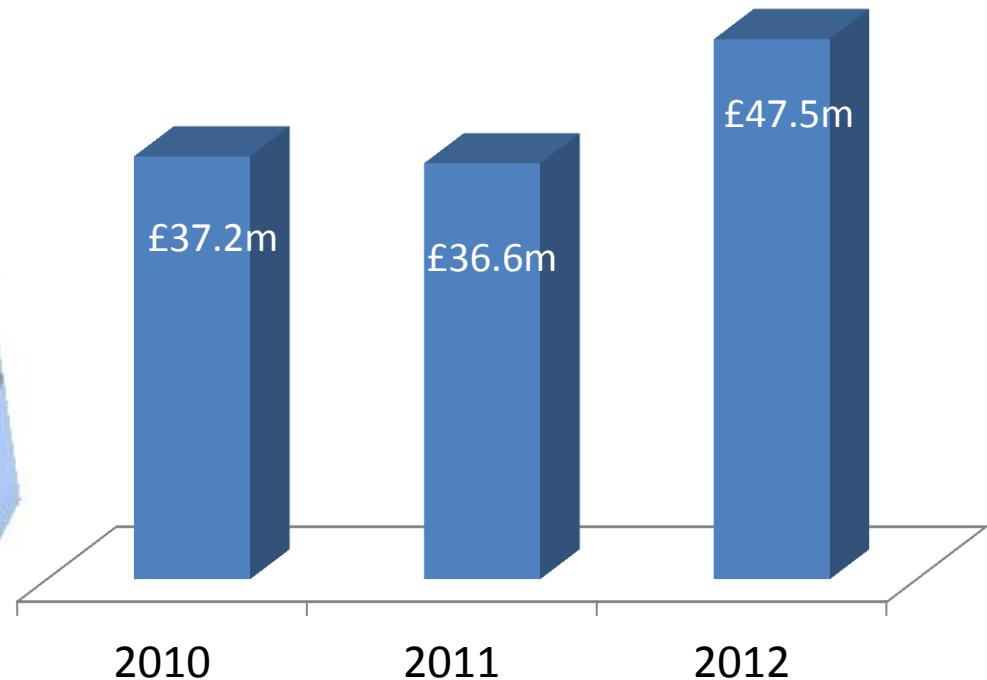
# PAT – UK GAAP

- PAT growth of £8.9m on prior year
- This improvement is driven by strong EBITDA performance as discussed previously



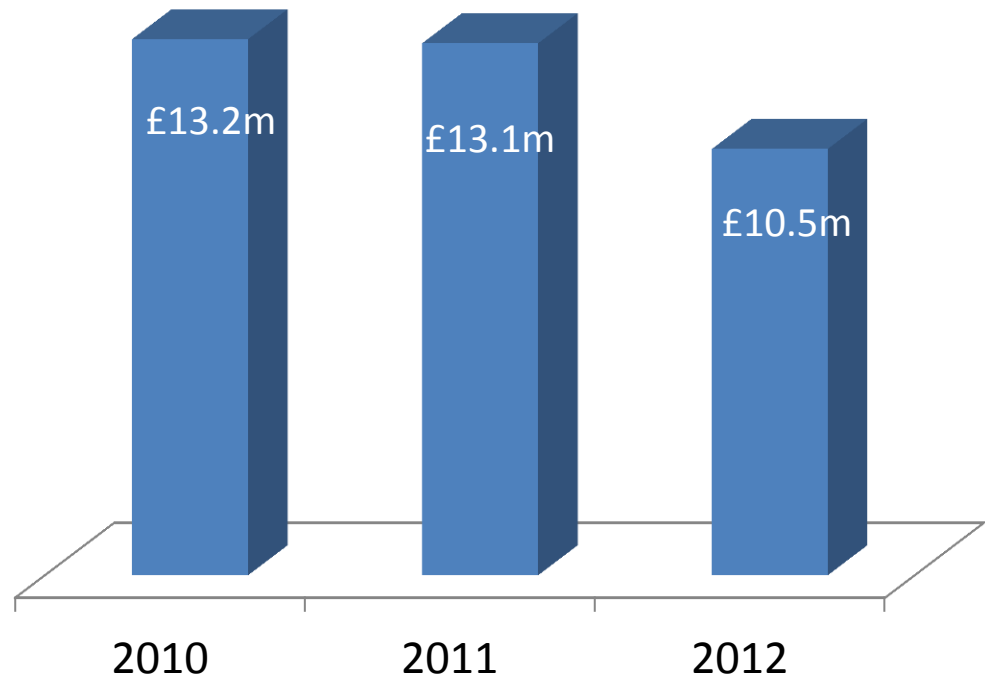
# Operating Cash

- Stable operating cash flows continue within the business
- Operating cash (post capex and interest payments) shows growth of £10.9m compared to the first six months of 2011
- This improvement is driven by EBITDA growth and capex savings due to capex in 2012 being weighted towards the second half of the year



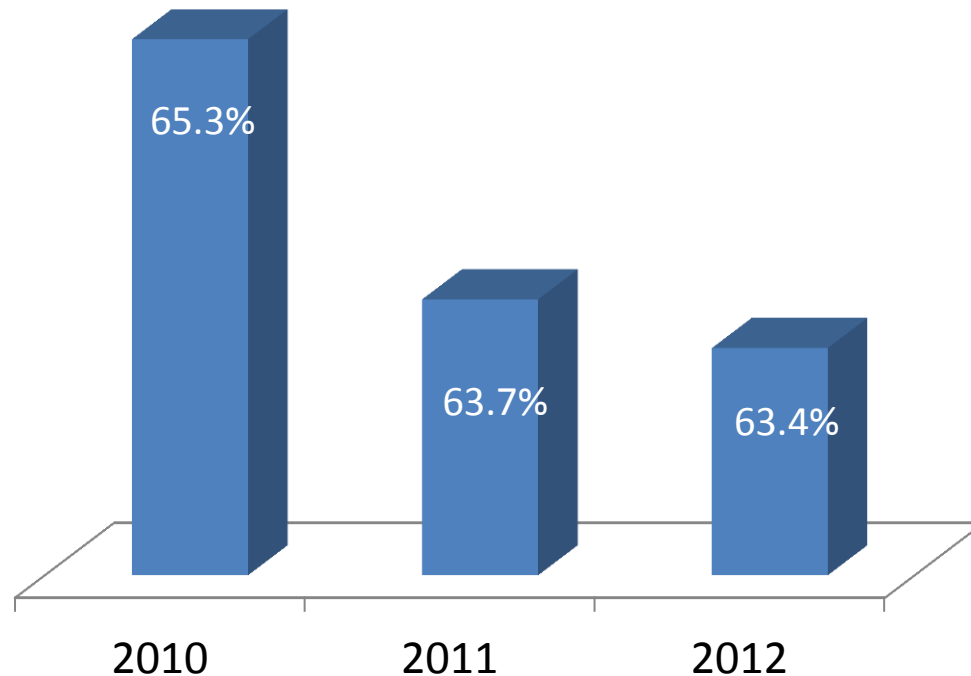
# Capital Expenditure

- We continue to invest heavily in our asset base - network assets, network extension schemes, fuel poor initiatives, connections, vehicle fleet renewals and IT infrastructure
- Capital expenditure to 30 June 2012 decreased slightly by £2.6m over the same period last year, with the 2012 capital expenditure profile being heavily weighted in the second half of the year



# Consolidated Net Senior Debt to RAV

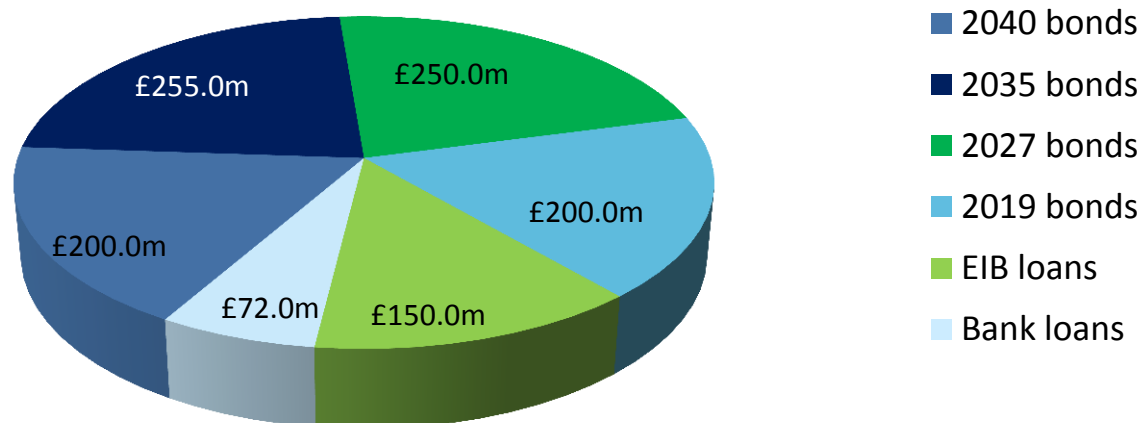
- Consolidated net senior debt to RAV of 63.4% is well below our internal target of 70% clearly evidencing our prudent gearing strategy
- RAV at 30 June 2012 is £1,736.9m, representing growth of c£78m across the last 12 months
- This position has enabled NGN to provide strong returns to Shareholders in the form of dividends while maintaining prudent leverage



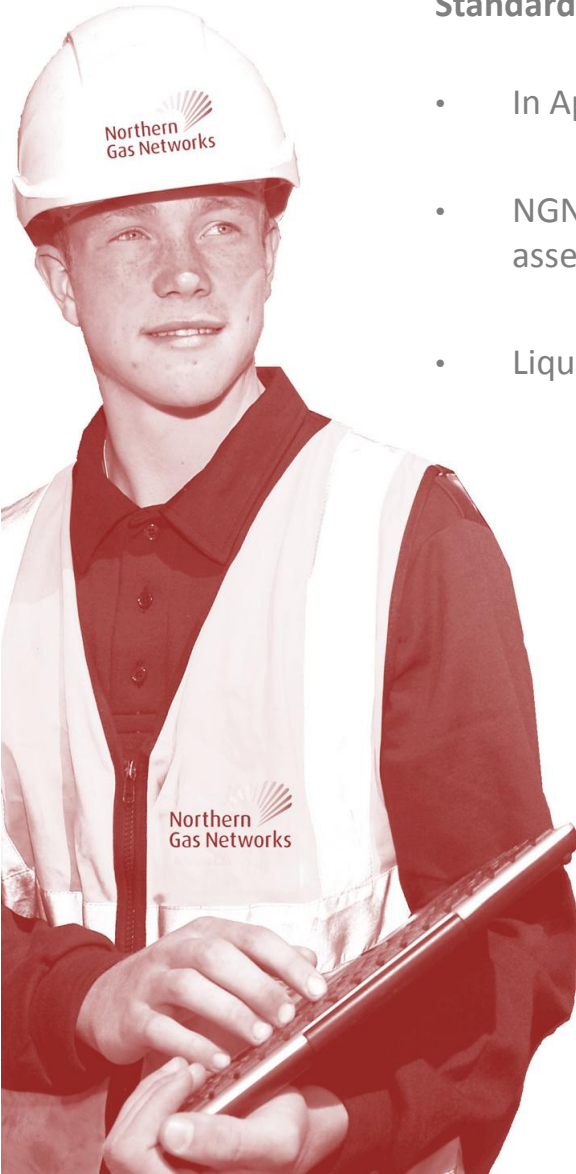
# Financing at NGN



- Debt at NGN, as shown in the chart below, comprises:
  - 505m fixed rate bonds (2027/2035), swapped into floating rate for life, currently re-fixed to the end of the current Price Control at March 2013
  - 400m fixed rate bonds (2019/2040)
  - £285m EIB facility of which £150m is drawn at 30 June 2012 - £50m fixed to 2020 and £100m fixed to March/April 2013
  - £200m revolving credit / working capital facility of which £78m was drawn at 30 June 2012 - £50m of this is fixed to April 2013 and the remaining floating
- Facilities are staggered to mature over a timeframe of up to 30 years avoiding excessive concentrations in any 12 month period as well as removing refinancing risk
  - In July 2012 NGN borrowed a further £60.0m from the EIB which matures in 2024, to fund our continuing network investment programme



# Credit Ratings



## Standard & Poor's (S&P)

- In April 2012 S&P reaffirmed NGN's BBB+ rating with Stable outlook
- NGN's frontier position and strong operational efficiencies contribute to the assessment of an "excellent" business risk profile
- Liquidity is considered to be "strong"

## Moody's Investor Services (Moody's)

- NGN's Baa1 rating with Stable outlook was formally reaffirmed by Moody's in July 2012
- The rating "reflects the company's strong business risk profile underpinned by its natural monopoly position and the predictable cash flows generated by its regulated activity"



# Regulatory Developments

# Regulatory Developments

NGN welcomes the principles of RIIO- GD1. The key features of our business plan included:

- Stakeholder led – material impact on our proposal, reduced our planned costs to customer by £35m per annum
- Meets our legal, regulatory and moral obligations by maintaining a safe and resilient network for current and future customers
- Compliant – in all aspects, the only GDN to achieve this
- Transparent – no redactions instigated by NGN
- Fully inclusive – all costs included in all policy areas
- Optimised and efficient expenditure - balancing short, medium and long term network requirements
- Range of scenarios considered driven by innovative approach to replacement expenditure, asset health and cost benefit analysis
- Recognised wider current UK policy agenda and economic constraints

***We remain confident this delivers the best package for customers and investors – we have a frontier business plan***

# Regulatory Developments

Latest update on our updated RIIO-GD1 business plan:

- Having submitted our second RIIO-GD1 submission in April 2012 we received initial proposals from Ofgem in July 2012
- NGN was benchmarked at the efficiency frontier with the joint highest Information Quality Incentive (IQI) rate of 64%, and the highest efficiency reward of 1.38% of totex
- We received the highest innovation allowance of any network (0.6% of revenue)
  - Our cost allowance cut was 13% but we are the only GDN with a resulting totex allowance being higher than in the current price control period
  - NGN were the only network to have non mandatory repex proposals accepted by Ofgem

***NGN received the best proposed settlement in the sector***

The next steps of RIIO-GD1:

- September 2012 – NGN respond to Ofgem’s initial proposals
- December 2012 – final proposals received
- April 2013 – new price control period starts



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