

Presentation to Bond Investors

September 2011

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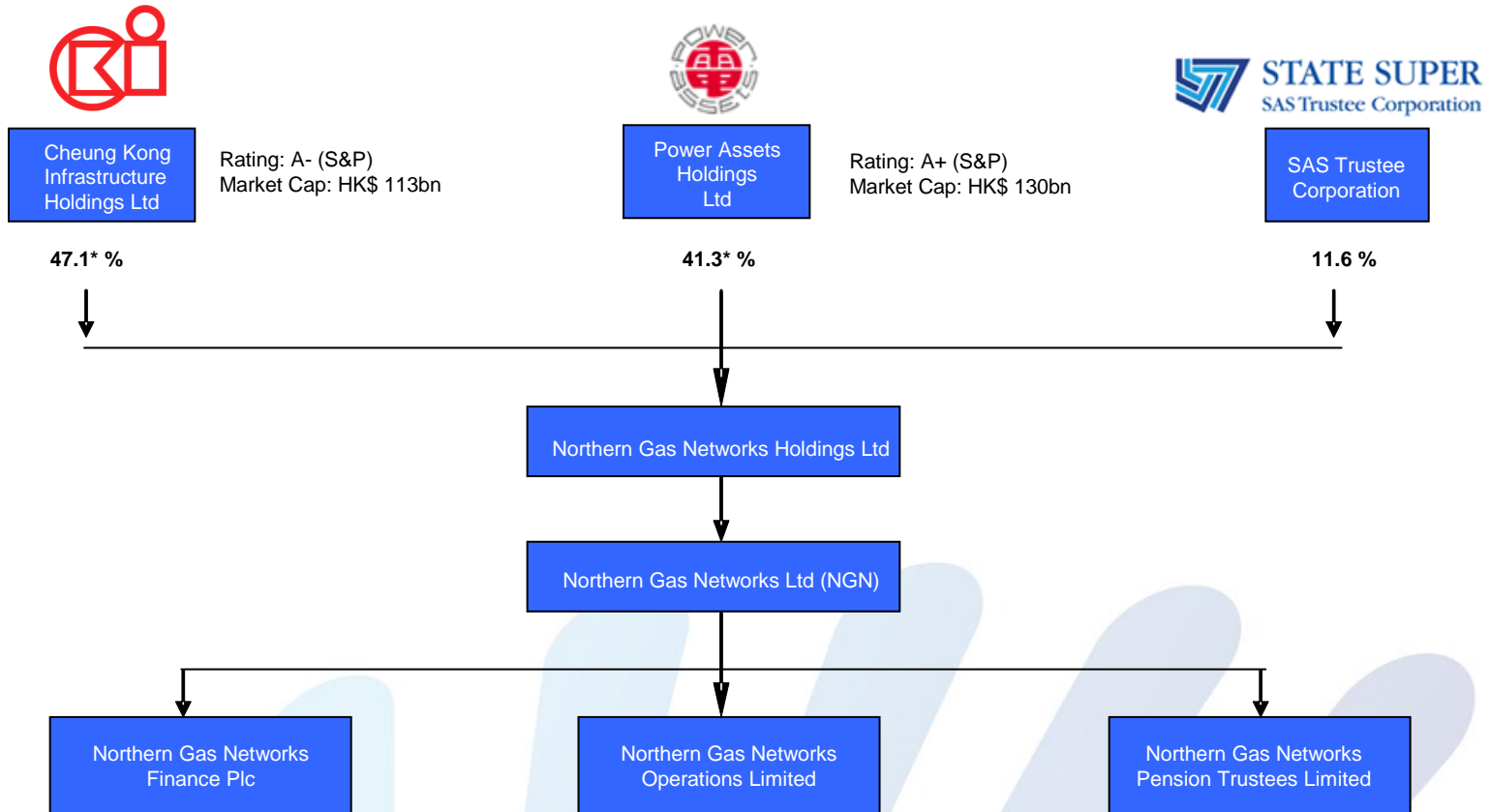
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Ownership, Vision and Strategy

Group Structure Changes



* Shareholdings are held through wholly owned subsidiaries.

- On 31 October 2010 NGN acquired Northern Gas Networks Operations Limited (NGNOL) and Northern Gas Networks Pensions Trustee Limited, effectively bringing the operation and maintenance of the network 'in-house' from United Utilities plc (UU). Our business plans now include the costs of separation from UU and an integrated business model approach moving forward.
- On 16 February 2011 Hongkong Electric Holdings Limited changed its name to Power Assets Holdings Limited (PAH).

CKI and PAH's Ownership Philosophy

- 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 £5.8 billion UK Power Networks (UKPN) acquisition, their serious interest in Central Networks and the recently announced bid for Northumbrian Water
- Focus is on predictable, low-risk businesses
- NGN's public and regulatory reputation is very important to the Shareholders
 - Strong emphasis on corporate governance and reputation with robust internal control framework
 - Underpinned by extensive internal audit programme and audits from CKI and PAH to manage risk and ensure full data integrity

Operating Strategy

- We strive to meet (and exceed wherever possible) all regulatory expectations in customer service, network reliability and employee and public safety
- At the same time our aim is to continue to outperform regulatory allowances and maximise available incentives and hence returns
- For the remainder of the current Price Control we will:
 - Continually review the performance of all network operations.
 - Maintain at all times comprehensive corporate governance arrangements.
 - Benchmark performance against the other GDNs wherever possible to ensure our continued financial and operational efficiency frontier position is maintained and in particular be able to improve our customer service.
 - Maintain heightened workplace and public safety emphasis.
 - Ensure incentives and business outperformance in the current price review period (2008-2013) are maximised and prepare for a successful outcome of RIIO-GD1 through submission of a robust 8-year business plan in November 2011.
 - Deliver efficiencies to business processes whilst achieving top quartile IT performance.
 - Continue to maintain strong, effective working relationships with our two regulators Ofgem and the HSE.
 - Continue the evolution of our new operational business model following integration of NGNOL.

Vision and Progress Made

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

EFFICIENCY

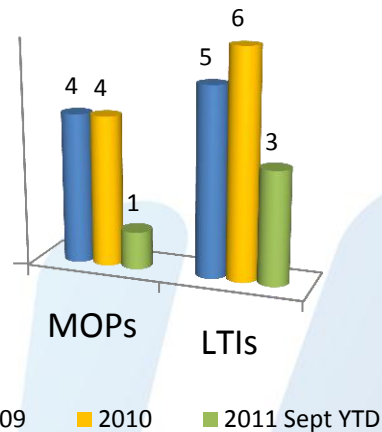
Ofgem continue to rank NGN as the most efficient GDN

Cost Assessment (2009/10) (1 = most efficient)	NGN Ranking
Totex (Ofgem's single model)	1
Totex (Capex+Opex+Repex)	1
Total Opex	1
Total Repex	1

Source: Ofgem

SAFETY

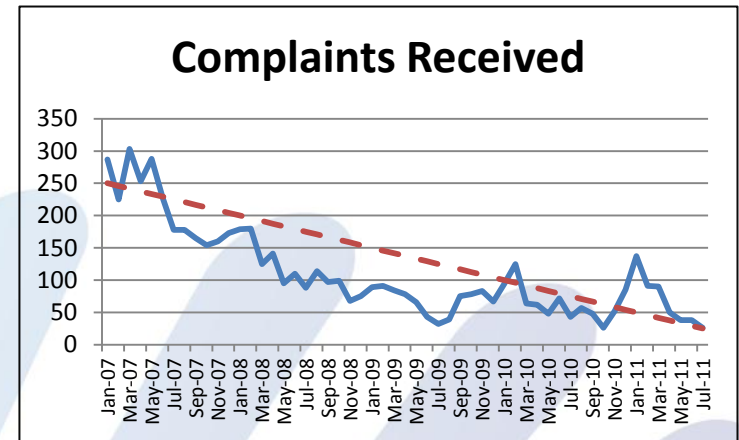
NGN's safety performance in 2011 continues to be strong and we continue to be viewed by the HSE as one of the best performing GDNS



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

CUSTOMER SERVICE

Customer complaints show a downward trend; whilst customer satisfaction scores were disappointing at the start of the calendar year linked to the severe winter the scores have now begun a "bounce back".



Ofgem surveys rankings (2010/11 average):

- Repair – 7th /8
- Replacement – 3rd /8
- Connections – 3rd /8
- Target – consistently be ranked in top two



Recent Developments

Mark Horsley – Chief Executive Officer

- Mark Horsley was appointed CEO of NGN in January 2011 upon Basil Scarsella being appointed CEO of the new UKPN business.
- Mark has more than 30 years' experience in the energy industry and was previously a Partner at EC Harris, leading the power sector of the International Built Asset Consultancy.
- Prior to that Mark was an Executive Director at Scottish Power with responsibility for the £500m capital delivery programme in the transmission and distribution division. He was also responsible for a business transformation plan to deliver outperformance over the price review period.
- He began his career as an apprentice with the North Eastern Electricity Board. He rose through the ranks to become the President and Chief Operating Officer of CE Electric UK in 2003, running the Yorkshire and Northern power distribution businesses, gas operations in Poland and Australia and a power contracting business in the UK and Ireland.

Acquisition of NGNOL

- At the end of October 2010 NGN's operations were effectively "brought in-house" with the acquisition from UU of NGNOL (formerly United Utilities Operations Limited) for a nominal sum.
- This development arose as a result of UU's divestment of its contract solutions business and provides NGN with the opportunity to deliver ongoing operational efficiencies.
- The cash impact of working capital changes and set-up costs in late 2010 was largely offset by contractual payments back from UU and strong operating cash flows generated within NGN.
- As a result of the transaction NGN:
 - Has stopped paying management fees to UU
 - Ceased paying some UU direct recharges
 - Incurs some additional enduring direct costs (primarily IT system costs, SAP costs and insurance arrangements)
 - Is in a position to benefit from significant business opportunities (see next slide) to deliver a further step change in business performance
- The profit impact of the acquisition in 2010 and 2011 is broadly neutral and from 2012 profit margins are expected to improve as various Transitional Service Arrangements lapse as services will be up and running "in-house" which will deliver the previous services at approximately the same cost.

Our Evolving Business Model

Our Challenge for 2011

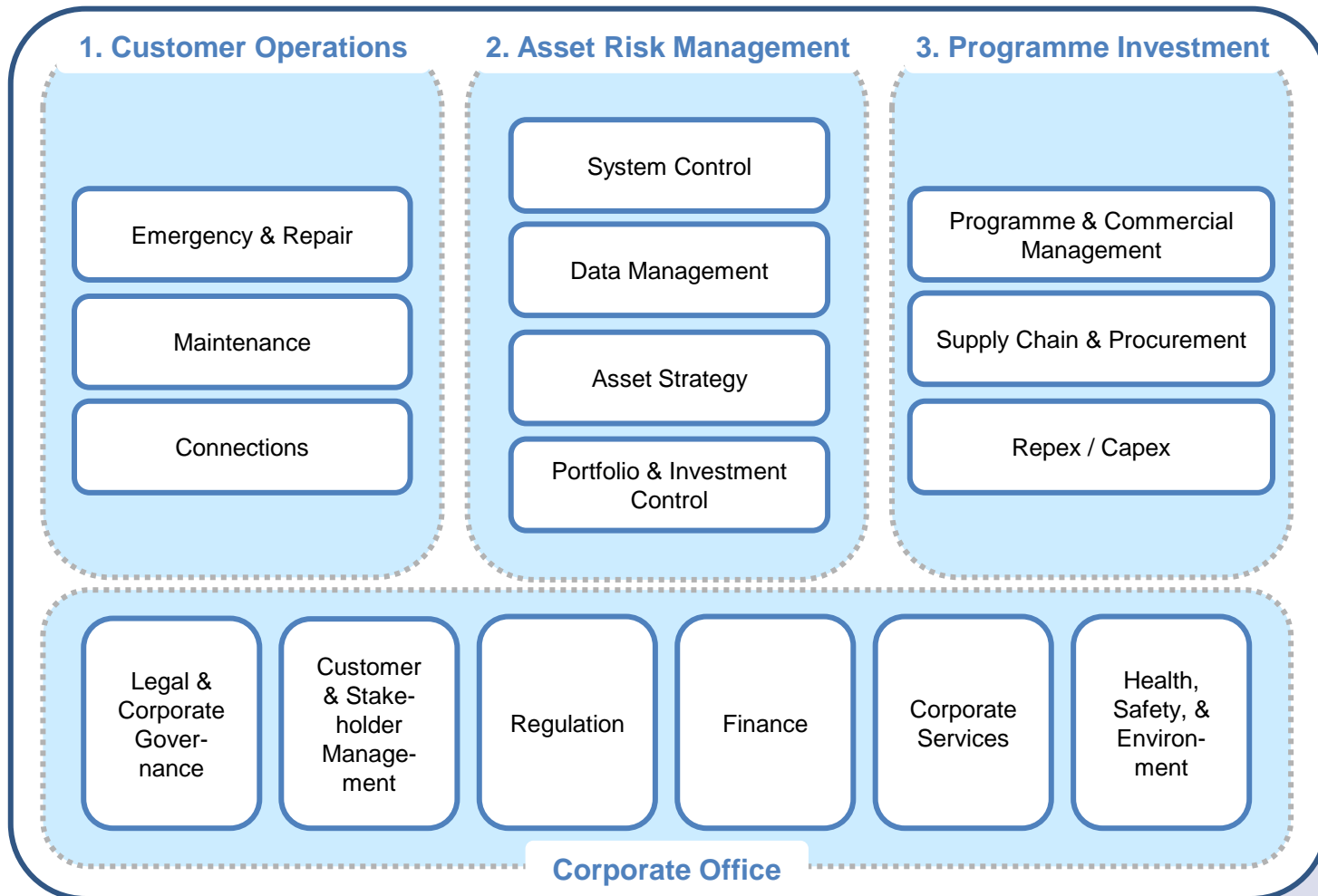
- Integrate successfully:
 - Fully integrate NGN and NGNOL;
 - Systems, teams, processes, and delivery; and
 - Improve our combined capability.
- Step our performance up against other GDN's.
- Continue to outperform against our targets:
 - Back on track with delivery – clearing work from the winter.
- Set ourselves up for success in RIIO GD1.

Our Plans


- Implementation of our new integrated business model.
- Improve our delivery processes.
- Deliver performance improvements identified in our recent business review.
- Get the organisation structure right:
(Placing our people in the areas they can be most effective)
- Ready for the next regulatory period.

Our Evolving Business Model (Continued)

- The new integrated model has three core targeted areas supported by our corporate office (see Appendix 1 for more detail on each of the three operational areas).



Financial Performance 2010 and 2011 to date



Five Year Summary – Exceptionally Strong Track Record

31 December	2010	2009	2008	2007	2006
Profit (£m)					
Revenue	341.0	343.5	323.7	289.5	273.3
EBITDA	131.0	131.4	117.4	106.7	89.2
PAT	14.2	10.0	6.9	12.4	(3.2)
Cash (£m)					
Operating Cash Flow	106.5	115.9	132.7	106.2	111.6
Capital Investment	38.9	48.9	43.1	38.5	41.3
Dividends	65.0	30.0	70.0	65.0	60.0
Balance Sheet (£m)					
Net assets	268.0	325.0	350.9	422.1	467.4
Ratios					
PMICR	1.9x	1.9x	1.8x	1.9x	1.7x
Debt : RAV (%)	67.0	66.7	68.4	65.9	67.4
FFO : Average Debt (%)	13.5	15.7	13.8	11.6	11.1
FFO Interest Cover	2.6x	2.6x	2.8x	2.7x	2.5x

2010 Financial Performance

- Revenue slightly down on previous year reflecting timing of regulatory allowances but offset by lower operating costs resulting in 2010 EBITDA being in line with 2009.
- 2010 profit after tax up £4.2m on prior year as a result of reduced finance and tax charges.
- 2010 shows another strong year of operating cash flows with the slight decrease on 2009 primarily due to a 'one off' cash impact of acquiring NGNOL.
- Capital spend (net of customer contributions) of £38.9m during 2010, the majority of which is on network projects and IT infrastructure primarily in relation to system control to allow separation from National Grid systems.
- Replacement spend of £88.7m represents c570km of annual mains replacement (and associated services).
- NGN remain well within the internal debt leverage target of 70.0% providing the business with significant financial headroom moving forward.

Financial Results for the June 2011 Half Year

	6 Mths June 10	6 Mths June 11
Profit (£m)		
Revenue	169.1	170.4
EBITDA	64.4	64.9
PAT	3.9	9.4
Cash (£m)		
Operating Cash Flow (before tax , interest & Capex)	78.0	82.6
Capital investment	(16.4)	(15.4)
Dividends	(14.3)	(18.0)

PAT is up by £5.5m on last year mainly due to:

>EBITDA improvement of £0.5m;

>Interest savings of £0.5m reflective of market rates; and

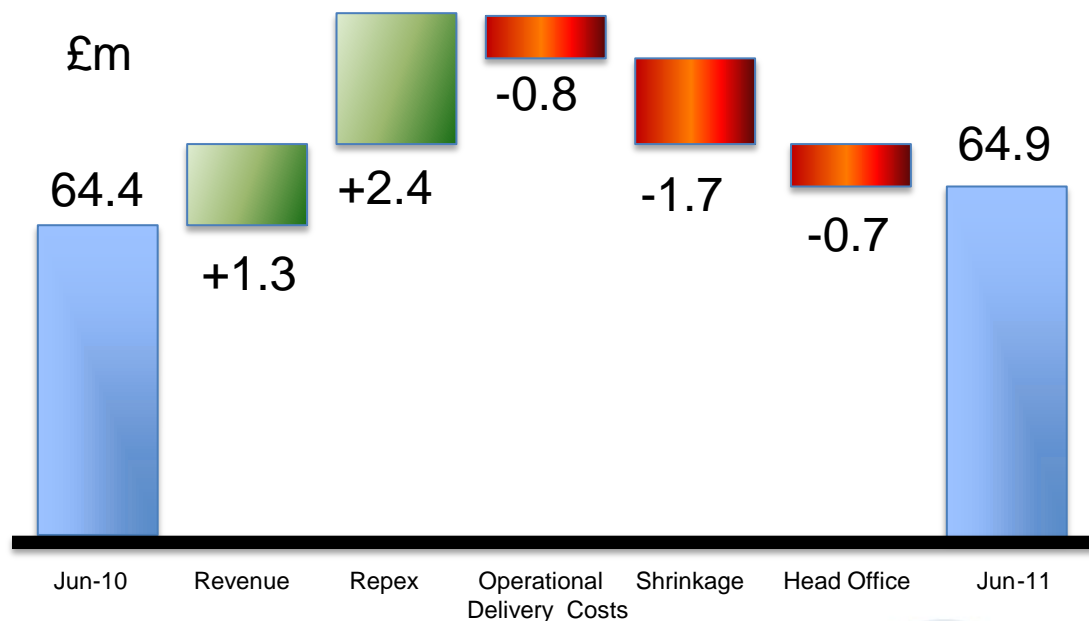
>Reduced tax of £4.2m due to the corporation tax rate reduction and resulting deferred tax liability restatement.

Operating cash flows are £4.6m up on 2010 mainly due to improved EBITDA and reduced supplier payments in line with cost savings, partially offset by reduced shipper receipts due to prepayment timing differences between the two periods which will be caught up in the second half of the year.

Capex investment remains on track.

EBITDA Profit Growth

- EBITDA improvement of £0.5m on same period last year.



- £1.3m revenue increase.
- £2.4m Repex savings due to changes in the mix of projects year-on-year to hit our annual HSE abandonment targets.
- £1.7m higher shrinkage gas costs reflective of wholesale gas price increases year on year.
- Increased operational and head office costs contain some atypical items:
 - £0.8m higher operational delivery costs due to clearing a higher level of gas escapes resulting from the severe 2010/11 winter weather.
 - £0.7m higher head office costs due to £1.5m of one-off costs associated with NGN's system control going live and allowing separation from National Grid systems, partially offset by £0.8m of cost reductions following the implementation of cost saving strategies in early 2011.
- Relentless efforts now being made to control costs across the board:
 - Delivery of future efficiencies in operational delivery and back office functions is paramount.
 - Increased scale of the group following the acquisition of the UKPN business is providing opportunities for better procurement terms and delivery of further efficiency improvements.

Strong Credit Metrics

Measure	6 Mths June 10	6 Mths June 11
Leverage Ratios		
RAV (£m)	1,562.5	1,658.9
Consol net senior debt: RAV (%)	65.3	63.7
FFO : average debt (%)	12.8	12.6
P&L Ratios		
EBITDA interest cover	2.1x	2.1x
EBITDA margin (%)	38.1	38.1
PMICR	1.9x	1.8x

Continued RAV growth reflective of NGN's ongoing investment into the asset base.

The RAV balance at 30 June 2011 reflects actual RPI to March 2011 of 5.3% and prudent forecast RPI of 3.7% to March 2012.

Resulting Consolidated Net Senior Debt: RAV of 63.7% shows NGN's prudent leverage position.

PMICR remains comfortably above bank covenant level of 1.3x.

- NGN continues to maintain key financial ratios above target levels reflecting strong financial performance and prudent leverage.
- Moody's Baa1 stable rating reaffirmed in June 2011.
- Outlook on BBB+ rating from S&P changed from negative to stable in February 2011.

Operational Performance

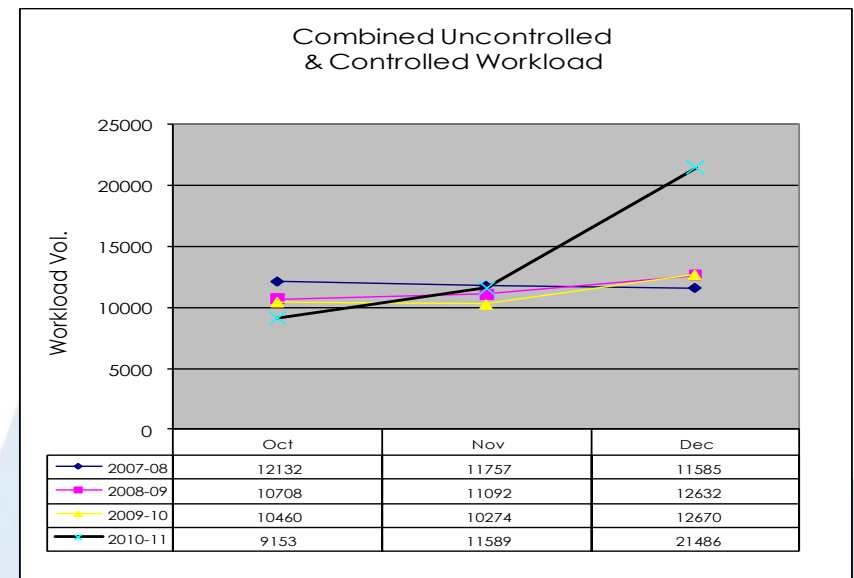
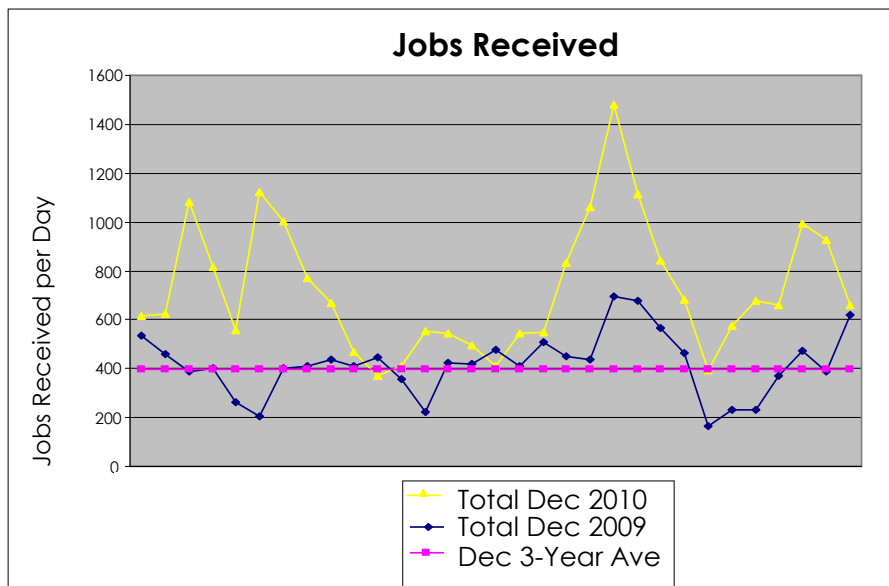


2010/11 Operational Performance Summary

- Achieved all key employee and public safety targets for the 2010 calendar year and currently exceeding all 2011 targets.
- Almost a 50% reduction in blameworthy vehicle accidents (45 from January to August 2011 compared with 83 in the same period last year)
- Gained companywide accreditation for ISO14001 and OHSAS18001
- Customer satisfaction survey scores for repair and replacement were improving across 2010 but the impact of the severe weather on 2010/11 Q3 and Q4 regulatory year scores set us back.
- The latest scores for Q1 2011/12 show steady improvement from this position. For example NGN has been ranked 2nd of the 8 DNs in connections in two of the last 4 quarterly surveys but we still need improvement to achieve our target of being consistently ranked as a top 2 DN across all customer measures.
- Attending gas escapes standards were not achieved for the 2010/11 regulatory year to March 2011 due to the adverse weather conditions of the winter. The network, along with some of the other GDNs and other utilities in the North, experienced unprecedented incoming daily workloads which impacted operational performance significantly.
- The impact of the adverse weather over the 2010/11 winter is covered in more detail on following slides 21&22. The business reacted superbly to the operational challenges of clearing the backlog and is now back on track.

Severe Weather from December 2010 – Difficulties Faced

- Coldest temperatures for 100 years; snow & ice for extended period leading to widespread restricted road use.
- 20 of 24 local authorities imposed highway opening restrictions.
- Unprecedented daily workload spikes across the Network and large geographical patch workload variance were experienced between North and South of the Network



- The business is now back on track with the level of outstanding gas escapes back to seasonally normal levels.

Mitigating Actions Taken

- Maximised working hours for all emergency staff
 - Suspension of all non emergency works over Christmas period
 - Round the clock working and extra staff on standby
 - Use of competent non operational staff for emergency works
 - Voluntary working by support departments
- Contractor utilisation
 - Contract Repex teams utilised to complete escape follow up works
 - Other available skilled contract labour and meterwork resource utilised
- Customer Care obligations paramount
 - 'Smell of Gas' focus
 - 'No Gas' & 'Poor Gas Pressure' secondary
- Mutual aid requests were made to other Networks but these were unsuccessful as the other Networks were in the same position

Strong Operational Performance Since Tough Start to the Calendar Year

KPI	2011 Full Year Target	6 Months to June 2011	2011 calendar year forecast
GAS ESCAPES:			
Attend gas escape: uncontrolled <1hr	97.3% (regulatory standard is 97.0%)	97.6%	97.6%
Attend gas escape: controlled <2hrs	98.0% (regulatory standard is 97.0%)	98.7%	98.8%
CUSTOMER SERVICE:			
Restore supply with 24hrs (<250 properties)	98.1% (No prescribed regulatory standard)	94.4%	97.3%
All connection Guarantee Standards of Service	96.3% (Regulatory standards are 90.0%)	99.3% - 100.0%	99.4%-100%
Customer satisfaction surveys	Benchmarked in top 2	3 rd /3 rd /7 th (Ofgem average survey rankings 2010/11)	Benchmarked in top 2
SAFETY:			
Lost Time Injuries	≤ 5	2	< 5
Blameworthy Vehicle Accidents	≤ 150	40	< 150
Injuries to Members of the Public	≤ 5	0	< 5
ISO14001 & OHSAS18001 accreditation	Full accreditation	n/a	Full accreditation

Regulatory Environment

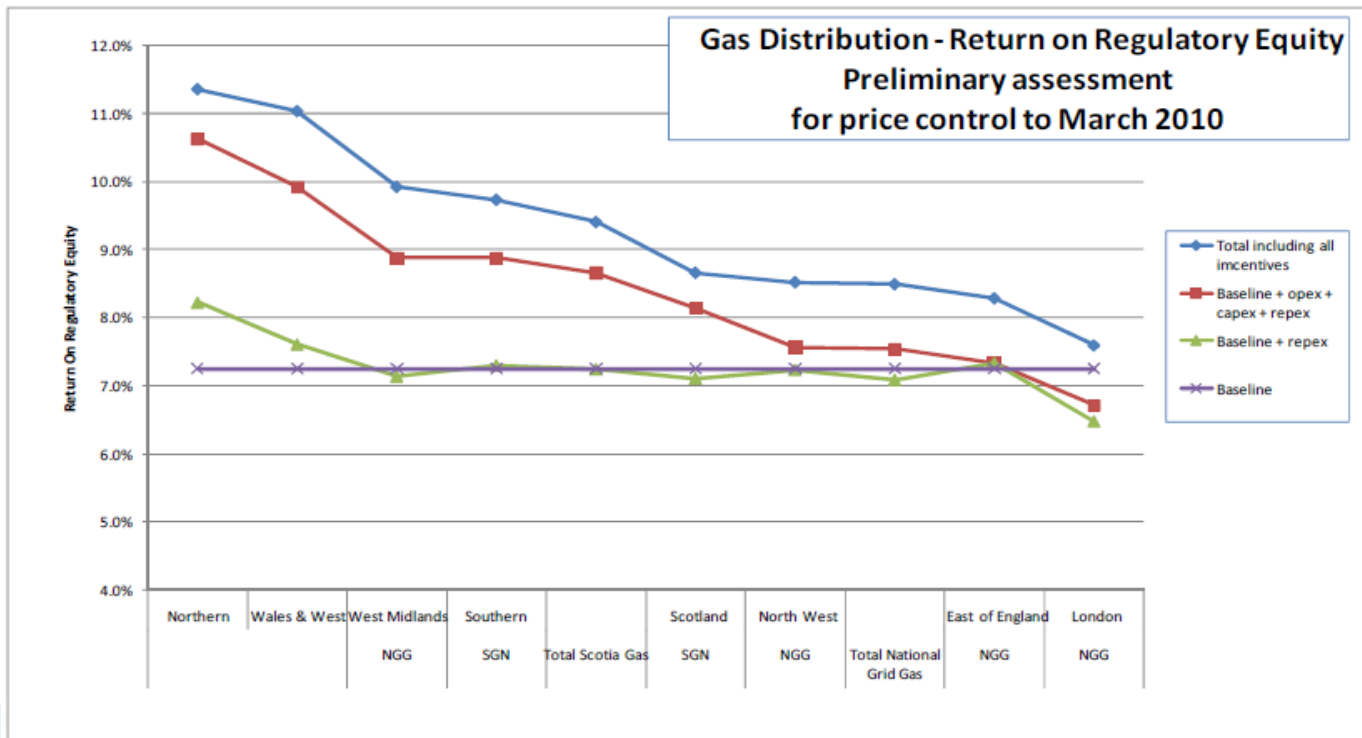


Relationship with our Economic and Safety Regulators

- NGN has built up an excellent relationship with Ofgem based on an honest and open approach.
- We have boosted our credibility to date by requesting realistic allowances and presenting accurate forecasts.
- NGN has consistently driven the efficiency frontier over all of Ofgem's published benchmarking since 2005 and is seen by Ofgem as 'setting the standard'.
- NGN is also highly regarded by the HSE due to our continued focus on safety.

Outperforming Regulatory Allowances

- Ofgem has previously produced the following chart showing each DNO's return on Regulatory Equity. This analysis reinforces NGN's position at the efficiency frontier, delivering returns well above Ofgem's baseline expectation (see also Ofgem efficiency cost benchmarking set out on slide 7):



Source: Ofgem, based on 2009/10 pricing

- We expect to outperform 2008-13 regulatory allowances by just under £200m of which about half represents outperformance of Opex allowances.

RIIO-GD1 – Key Principles

- The key elements of Ofgem’s RIIO-GD1 proposals which could have a potential financial impact on NGN if not addressed by transitional arrangements are:
 - a) Change in the treatment of funding Repex (as described in Appendix 2);
 - b) Capitalisation policy and ‘Totex’ with incentives equalised across Opex/Capex/Repex as well as the split of Fast/Slow money (as set out in Appendix 2); and
- Changes to the calculation of Cost of Capital (cost of equity, cost of debt and indexation thereof) (see Appendix 2 for more detail).
- The period of the price control will increase to 8 years from 5 years.
- Incentive mechanisms are still yet to be finalised.
- NGN is actively engaged with Ofgem to ensure that the final outcomes next year will represent an acceptable balance of risk and reward and will continue to reward NGN for continuing to drive the efficiency frontier.

RIIO-GD1 – NGN’s Position and Next Steps

- The 8-year Business Plan that we will submit to Ofgem will:
 - Fully address the need for transitional arrangements to offset the potential net impact of the change in Repex funding methodology taking into account the change in depreciation methodology already implemented by Ofgem and additional revenue to ensure adequate financeability (possibly over two price control periods);
 - Bid for a “frontier performer” award;
 - Include opportunities for Totex outperformance; and
 - Include incentive opportunities linked to delivery of output measures.
- Key dates for the review are:
 - Business Plan submitted 30 November 2011;
 - Ofgem feedback received February 2012;
 - Initial Proposals published by August 2012;
 - Final proposals published December 2012.
- The timetable has changed as a result of the HSE signalling significant changes to the iron mains Repex programme.



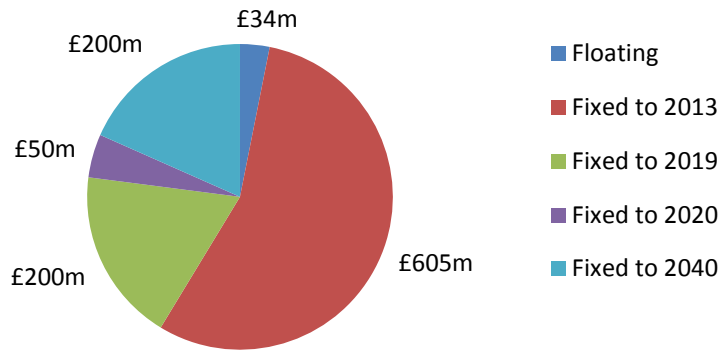
Financing

Financing Strategy and Financial Management

- NGN remains committed to maintaining leverage at about 70% of RAV. NGN believes that this level of debt will ensure that we maintain our strong BBB+/Baa1 ratings. This commitment is further supported by a flexible dividend policy.
- Our effective management of the financial risk profile results in:
 - Adequate cash generation;
 - Capacity to deliver steady dividend growth; and
 - Low liquidity and refinancing risk.
- Ongoing Capex and Repex expenditure will be funded out of bank facilities and periodically refinanced with capital markets issues when favourable conditions pertain.
- Banking group of four key relationship banks (Barclays, Lloyds, RBC & RBS) all with substantial experience and expertise in the areas required by NGN and with sufficient crossover to ensure continued competitive tension within the banking group.
- NGN has a simple strategy and is a single-purpose company focussing on gas distribution in the geographic area we serve. Our Regulatory Licence restricts us to focussing almost solely on our core activities of managing and operating the gas network.

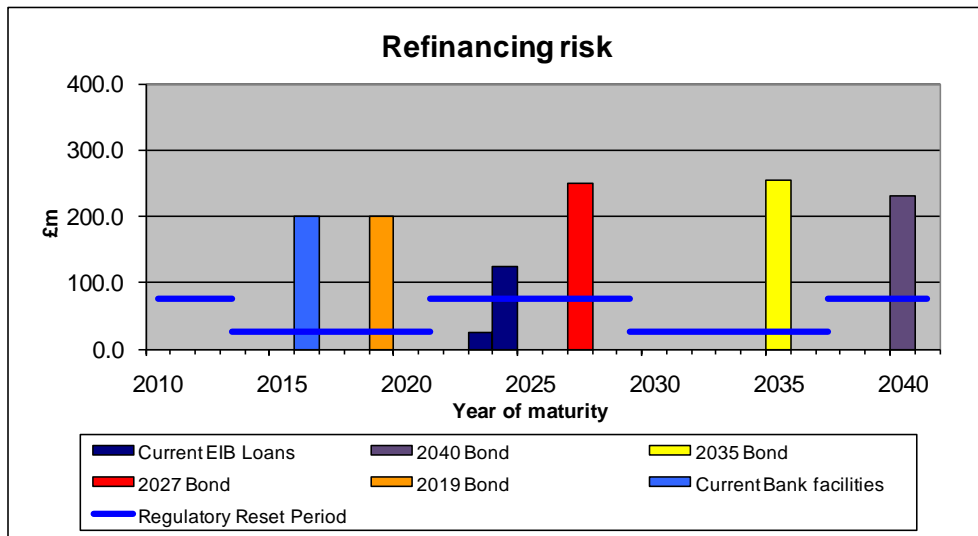
Debt Profile

NGN rate fixing profile



Current debt mix (September 2011)

- £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.
- £150m 14-year EIB loan of which £50m fixed to 2020, £100m fixed to March/April 2013.
- £200m revolving credit / working capital facility of which £34m drawn at 12 September 2011.
- Strong liquidity position with £18m of surplus cash and £221m of unutilised committed bank lines



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 where possible if such timeframes coincide with a regulatory reset date.



Outlook and Conclusions

Outlook

- Committed and settled management team with new CEO aligned to the vision of the company and instrumental in driving the new evolving business model into the heart of the combined business.
- NGN continues to perform strongly against Opex, Repex and Capex regulatory allowances and we believe we continue to drive the efficiency frontier in Ofgem's official benchmarking for 2010/11 as we have done for the last four years. We are ready to deliver a business plan to Ofgem for the 2013 – 2021 price control period which will address all the proposed RIIO-GD1 changes.
- Recent successful refinance of c£400m in 2009 and 2010; new five year £200m bank facility and recent EIB loan approvals put us in a strong liquidity position.
- Prudent asset management plans underpin all our investment strategies.
- Strengthened financial standing by virtue of our prudent gearing strategy and strong investment grade credit rating.
- Strong financial performance delivered for 2010 and the half year results show that we remain on track to beat our forecasts for 2011.
- Shareholders remain committed to UK infrastructure investments as evidenced by the recent UK acquisition activity.

Conclusions

Strong Business Performance

- NGN continues to perform exceptionally well against Opex, Repex, Capex and cost of debt regulatory allowances and we continue to drive the efficiency frontier in all Ofgem's official benchmarking.
- 2010 another strong year of financial performance and 2011 year-to-date is tracking above budget.
- Atypical winter adversely affected our overall annual performance but we are now back on track operationally and seeing a bounce back in customer service satisfaction scores in 2011.
- Operations brought smoothly "in-house"; evolution of new business model is positioning the business to deliver improved performance and put us in a unique position to respond, well in advance, to the challenges of RIIO-GD1.
- Prudent asset management plans and new targeted operating model robustly underpin our investment strategies.

Cash Flow Adequacy

- Cash generation sufficient to cover interest and Capex in all years.
- Relatively modest Capex investment. 50% of Repex funded in year by Ofgem until 2013 and our RIIO-GD1 business plan to Ofgem for the next Price Control Review argues strongly for full transitional arrangements to address any revenue impacts of changes to Repex treatment under RIIO-GD1.
- Strong liquidity position to take us well into the next price control period.

Strong Equity Sponsorship

- Simple unstructured capital structure with a substantial equity cushion of over £570m.
- The company benefits from the support and financial backing of a strong group of shareholders who remain committed to UK infrastructure investments as evidenced by the recent UK acquisition activity.
- CKI and PAH all have considerable experience in owning and operating utility businesses globally.
- Commitment to flexible dividend policy and BBB+/Baa1 stable ratings.



Appendices

Customer Operations

Emergency & Repair

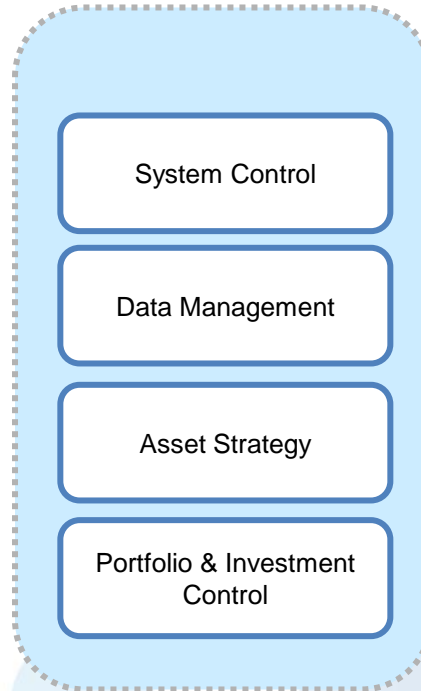
Maintenance

Connections

Customer Operations

- Right in front of the customer – the most visible part of our business.
 - ***Visibly being the best.***
- Preventing network failures (sophisticated maintenance).
- Managing escapes and customer emergencies.
- Connections excellence supporting customer perception.
- Combined scheduling.
- High performance delivery teams (NGN direct labour).
 - Better quality, effective and, more productive than any contracting organisation could be for NGN.

Asset Risk Management



Asset Risk Management

- Being smart about how we operate our assets.
- Strong asset management.
- System control.
- Building performance information about our network.
- Making the right decisions – balancing spend on operations and capital investment (Totex).
- Creating our maintenance strategy, the basis of how we respond to emergencies.
- Identifying the investment we need to make in the network.
- Controlling investment expenditure in line with asset strategy.

Programme Investment

- Delivering the investment we are making in our network.
- Driving value for money from our investment in the network.
- Managing the programme of work – change, risk, schedule and commercials.
- Getting the best supplier relationships in the market – sharing success and obtaining best value.
- Managing the performance of our suppliers.
- Partnering with the supply market (real partnerships that deliver us value).

Programme Investment

Programme & Commercial Management

Supply Chain & Procurement

Repex / Capex

RIO-GD1 – Change in the Treatment of Funding Repex

- Ofgem is proposing a change to the current capitalisation rate of Repex from 50% to 100%, which has potentially material P&L and cash flow consequences for NGN if not addressed by transitional arrangements.
- It is within the control of NGN to evaluate within our business plan the level to which transitional arrangements may be necessary to address any financeability issues raised by this change, and the changes outlined on previous slides.
- The primary options identified for transitional arrangements included:
 - Shortening asset lives;
 - Front end loaded depreciation profiles; and
 - Increasing the Fast/Slow Totex Money split.
- However, Ofgem after consulting have stated there will be no change to the asset lives of GDN assets which will remain at 45 years.
- Ofgem have now front-end loaded depreciation by applying a sum of digits methodology to assets from 2002/03 (still over a 45 year asset life). This will result in 'catch up' depreciation for assets added to RAV between 2002/03 and 2012/03, to be recovered over the next Price Control.
- The implementation of the proposed 100% Repex Capitalisation policy would result in a Fast/Slow Totex Money split of 37%:63%. A 5% movement in the Fast/Slow Totex Money split would result in a change in revenue of c£88m over the 8 year price control (c£11m pa).

RIIO-GD1 – Capitalisation Policy & ‘Totex’

- Ofgem proposes to adopt a RAV methodology whereby a set percentage of total costs (Totex) goes into RAV each year.
- Totex will be all controllable costs (Opex, Capex, Repex) relating to the Licensed activities (with the exception of pension deficit repair payments relating to the established deficit and related party margins, rates, shrinkage).
- A fixed proportion of Totex would be added to the RAV each year (Slow Money) with the remainder being allowed to be recovered in the year of expenditure (Fast Money) in line with DPCR5 methodology.
- The split of Fast:Slow money will need to be set so as to deliver sufficient returns to GDNs and this matter is one which the GDNs have to address within our individual business plan submissions. It is likely that NGN’s business plan will target a Fast/Slow Totex Money split of c45%:55% at the start of the price control, thereafter converging towards Ofgem’s assumed 37%:63% split slightly after the end of the initial 8-year price control period.

RIIO-GD1 – Changes to the Calculation of Cost of Capital

- The RIIO-GD1 proposals highlight a potential range for the Cost of Capital of 3.44% to 4.64% (based on the notional gearing remaining at 62.5%) down from 4.94% in GDPCR1 (DPCR5 had 4.25% but with 65.0% notional gearing).
- Companies' Business Plans will be required to propose the notional capital structures and cost of equity in the business plan. Ofgem's assumed notional gearing will be based on an assessment of the risk of companies' cash flows.
- The cost of debt assumption included in the allowed return will be based on a trailing average of an iBoxx cost of debt index, with revenues updated annually to reflect changes in the index.
- NGN will be arguing for notional gearing to stay at 62.5%, and a cost of equity at the top of Ofgem's range (c7.2%) which would give a WACC higher than DPCR5's 4.25% level.