



**Southern Gas Networks plc**



**Scotland Gas Networks plc**

Prospectus dated 2 October 2019

# **SOUTHERN GAS NETWORKS PLC**

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

*(Legal Entity Identifier: 549300SPX8573VZ2SK79)*

# **SCOTLAND GAS NETWORKS PLC**

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

*(Legal Entity Identifier: 549300Y7M5CC1U5DBX07)*

**£5,000,000,000**

## **Euro Medium Term Note Programme**

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

This Prospectus has been approved by the Financial Conduct Authority in its capacity as competent authority under the Prospectus Regulation (as defined herein) (the “**FCA**”). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuers or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made to the FCA for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the FCA (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the Regulated Market of the London Stock Exchange (the “**Market**”). References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU.

The requirement to publish a prospectus under the Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 1(4) and/or Article 1(5) (as applicable) of the Prospectus Regulation. Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency on the relevant date of issue as agreed between the relevant Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue.

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

If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**New Global Note**” or “**NGN**”) form, they will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream Luxembourg**”). Global Notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) will be delivered on or prior to the original issue date of the relevant Tranche to a common depository (the “**Common Depository**”) for Euroclear and Clearstream, Luxembourg. Each series of Notes issued in registered form will be represented on issue by beneficial interests in one or more global certificates (each a “**Global Certificate**”) which will be deposited with and registered in the name of a nominee for (i) the Common Depository (where the Global Certificate is not to be held in the New Safekeeping Structure (the “**NSS**”)) or (ii) the Common Safekeeper (where the Global Certificate is to be held in the NSS).

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

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

Amounts payable under the Notes may be calculated by reference to (i) LIBOR, which is provided by ICE Benchmark Administration Limited, (ii) EURIBOR, which is provided by the European Money Markets Institute, (iii) RPI, which is provided by the Office for National Statistics, (iv) CPI, which is provided by the Office for National Statistics, (v) CPIH, which is provided by the Office for National Statistics, and (vi) SONIA, which is provided by the Bank of England. As at the date of this Prospectus, ICE Benchmark Administration Limited and the European Money Markets Institute appear and the Office for National Statistics and the Bank of England do not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**BMR**” or “**Benchmark Regulation**”).

As far as the Issuer is aware, RPI, CPI, CPIH and SONIA do not fall within the scope of the BMR by virtue of Article 2 of that regulation.

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

The long term unsecured, unguaranteed and unsubordinated debt obligations of each Issuer are, as at the date of this Prospectus rated: BBB+ by S&P Global Ratings Europe Limited (“**Standard & Poor’s**”), Baa1 by Moody’s Investors Service Limited (“**Moody’s**”) and BBB+ by Fitch Ratings Ltd (“**Fitch**”). For an explanation of the meaning of the ratings, see “*Issuer and Programme Description – Rating*”. As at the date of this Prospectus, each of Standard & Poor’s, Moody’s and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “**CRA Regulation**”).

Tranches of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated such rating will not necessarily be the same as the ratings assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Arranger**  
**Barclays**  
**Dealers**

**Barclays**  
**Lloyds Bank Corporate Markets**  
**NatWest Markets**

**CIBC Capital Markets**  
**MUFG**  
**RBC Capital Markets**

The date of this Prospectus is 2 October 2019

Unless otherwise specified, all references in this Prospectus to the “**Prospectus Regulation**” refer to Regulation (EU) 2017/1129.

This prospectus (“**Prospectus**”), together with all documents which are deemed to be incorporated herein by reference (see the section entitled “*Documents Incorporated by Reference*”) comprises a base prospectus for

the purposes of Article 8 of the Prospectus Regulation. This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

Each Issuer accepts responsibility for the information contained in this Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of each Issuer, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

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

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes:

- (a) is intended to provide the basis of any credit or other evaluation; or
- (b) should be considered as a recommendation by either Issuer, any of the Dealers, the Arranger or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes.

Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of either Issuer. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of either Issuer, the Arranger, any Dealer or the Trustee to any person to subscribe for or to purchase any Notes.

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

None of the delivery of this Prospectus or any Final Terms or any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of either of the Issuers since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of either of the Issuers since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers, the Arranger and the Trustee expressly do not undertake to review the financial condition or affairs of either of the Issuers during the life of the Programme or to advise any investor or potential investor in the Notes of any information coming to their attention.

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

For a description of these and certain further restrictions on offers, sales and transfers of Notes and distribution of this Prospectus or any Final Terms, see “*Subscription and Sale*”.

Neither this Prospectus nor any Final Terms constitutes an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The Issuers, the Dealers, the Arranger and the Trustee do not represent that this Prospectus or any Final Terms may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any

applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Dealers, the Arranger or the Trustee which is intended to permit a public offering of any Notes or distribution of this Prospectus or any Final Terms in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Prospectus or any Final Terms or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus any Final Terms and the offering and sale of Notes.

**PRIIPS / IMPORTANT – EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a “retail investor” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”) or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The Final Terms in respect of any Notes may include a legend entitled “**MiFID II Product Governance**” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the “**Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the Product Governance Rules.

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

The Arranger, the Trustee and the Dealers have not separately verified the information contained in this Prospectus. None of the Dealers or the Arranger nor any of their respective affiliates has authorised the whole or any part of this Prospectus and none makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus, or any document or agreement relating to the Notes. None of the Arranger or the Dealers shall be responsible for the execution, legality, effectiveness, adequacy, genuineness, enforceability or admissibility in evidence of any document or agreement relating to the Notes or the acts or omissions of the Issuers or any other person (other

than the relevant Issuer) in connection with the issue and offering of the Notes. Neither this Prospectus nor any financial statements incorporated by reference herein should be considered as a recommendation by either of the Issuers, the Arranger or the Dealers that any recipient of this Prospectus, any Final Terms or any financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in, or incorporated by reference in, this Prospectus or any Final Terms and its purchase of Notes should be based upon such investigation as it deems necessary. No Dealer, nor the Arranger nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by either of the Issuers in connection with the Programme.

This Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Regulation to publish a prospectus. As a result, any offer of Notes in the European Economic Area must be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in the European Economic Area may only do so in circumstances in which no obligation arises for the relevant Issuer, the Arranger or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither of the Issuers, nor the Arranger nor any Dealer has authorised, nor does any such person authorise, the making of any offer of Notes in circumstances in which an obligation arises for the relevant Issuer, the Arranger or any Dealer to publish or supplement a prospectus for such offer.

If a jurisdiction requires that an offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the relevant Issuer in such jurisdiction.

**In connection with the issue of any Tranche (as defined in “Issuer and Programme Description”) of Notes, the Dealer or Dealers (if any) acting as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.**

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

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

- (c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the relevant Notes and is familiar with the behaviour of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

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

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

### Annual Reports

- (i) annual report of Southern GN for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2019) (available at <https://www.sgn.co.uk/sites/default/files/media-entities/documents/2019-08/SGN-Southern-Strategic-Report-2019.pdf>);
- (ii) annual report of Southern GN for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2018) (<https://sgn.co.uk/sites/default/files/media-entities/documents/2019-09/SGN-Southern-Strategic-Report-2018.pdf>);
- (iii) annual report of Scotland GN for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2019) (available at <https://sgn.co.uk/sites/default/files/media-entities/documents/2019-08/SGN-Scotland-Strategic-Report-2019.pdf>);
- (iv) annual report of Scotland GN for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2018) (<https://sgn.co.uk/sites/default/files/media-entities/documents/2019-09/SGN-Scotland-Strategic-Report-2018.pdf>);

### Terms and Conditions

- (v) the terms and conditions set out on pages 25-61 of the prospectus relating to the programme dated 19 September 2011 (available at [https://files.smartsurvey.io/2/0/M7FYJBG3/Scotland\\_and\\_Southern\\_£5bn\\_EMTN\\_prospectus\\_dated\\_19\\_September\\_2011.pdf](https://files.smartsurvey.io/2/0/M7FYJBG3/Scotland_and_Southern_£5bn_EMTN_prospectus_dated_19_September_2011.pdf));
- (vi) the terms and conditions set out on pages 23-54 of the prospectus relating to the programme dated 17 October 2014 (available at [https://files.smartsurvey.io/2/0/YUVVV2AD/Scotland\\_and\\_Southern\\_£5bn\\_EMTN\\_prospectus\\_dated\\_17\\_October\\_2014.pdf](https://files.smartsurvey.io/2/0/YUVVV2AD/Scotland_and_Southern_£5bn_EMTN_prospectus_dated_17_October_2014.pdf));
- (vii) the terms and conditions set out on pages 23-55 of the prospectus relating to the programme dated 25 February 2016 (available at [https://files.smartsurvey.io/2/0/4ZHAYMDD/Scotland\\_and\\_Southern\\_£5bn\\_EMTN\\_prospectus\\_dated\\_25\\_February\\_2016.pdf](https://files.smartsurvey.io/2/0/4ZHAYMDD/Scotland_and_Southern_£5bn_EMTN_prospectus_dated_25_February_2016.pdf)); and
- (viii) the terms and conditions set out on pages 30-65 of the prospectus relating to the programme dated 2 March 2018 (available at [https://files.smartsurvey.io/2/0/6DJ3W16Y/Scotland\\_and\\_Southern\\_£5bn\\_EMTN\\_prospectus\\_dated\\_2\\_March\\_2018.pdf](https://files.smartsurvey.io/2/0/6DJ3W16Y/Scotland_and_Southern_£5bn_EMTN_prospectus_dated_2_March_2018.pdf)).

Such documents shall be deemed to be incorporated in, and to form part of, this Prospectus save that any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Any further information or

documents incorporated by reference in the documents incorporated by reference above does not form part of, and shall not be deemed to be incorporated into, this Prospectus.

Such documents have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Conduct Authority. Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the relevant Issuer and from the specified office of the Paying Agent for the time being in London. In addition, copies of such documents will be available on the website of the Regulatory News Service operated by the London Stock Exchange, <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and the annual reports of each Issuer for the financial year ended 31 March 2019 and 31 March 2018 respectively will be available on the website operated by the Issuers, <https://www.sgn.co.uk/Publications/Annual-Reports/>.

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

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

### **Supplementary Prospectus**

If at any time an Issuer shall be required to prepare a supplementary prospectus pursuant to Article 23 of the Prospectus Regulation, such Issuer will prepare and make available a supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by Article 23 of the Prospectus Regulation.

Each Issuer confirms that if at any time during the duration of the Programme there arises or is noted a significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus which may affect the assessment by investors of the Notes to be issued by it, that Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of Notes to be issued by it.



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## OVERVIEW OF THE ISSUERS AND THE SGN GROUP

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

### The Businesses

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

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

In this Prospectus, reference to the “**SGN Group**” are to SGN and its subsidiaries.

Southern GN and Scotland GN are wholly owned subsidiaries of SGN MidCo Limited (“**MidCo**”), which is itself a wholly-owned subsidiary of SGN.

The principal activities of the Issuers are the transportation of gas and the ownership, operation and development of the gas distribution network in their respective areas of operation. The Issuers manage the networks that distribute gas to regions that include some of the most densely populated and most remote parts of the country. These are, respectively, the London Boroughs of Lambeth and Southwark, which are among the top ten most densely populated local authorities in England and Wales, and Scotland’s Western Isles.

Southern GN operates the regulated gas transportation business and provides metering services for the South and South East of England gas distribution network, one of eight regional gas distribution networks in Great Britain. Its gas distribution network comprises approximately 49,000 kilometres of gas mains delivering natural gas to approximately 4.1 million domestic, commercial and industrial customers. The network stretches from Milton Keynes in the north, to Dover in the east and Lyme Regis in the west, including London boroughs to the south of the River Thames.

Scotland GN operates the regulated gas transportation business and provides metering services for the Scotland gas distribution network, one of eight regional gas distribution networks in Great Britain. Scotland GN’s gas distribution network comprises approximately 24,000 kilometres of gas mains delivering natural gas to approximately 1.8 million domestic, commercial and industrial customers. The network distributes gas in all of Scotland to 75 per cent. of households, including remote areas through the Scottish independent undertakings at Stornoway, Wick, Thurso, Oban and Campbeltown.

### Shareholders

The shareholders of SGN are SSE plc (“**SSE**”) (as to 33.3 per cent.), Borealis Infrastructure Europe (UK) Limited (“**BIEUK**”) (as to 25 per cent.), OTPPB Investments (U.K.) Limited (“**OIUK**”) (as to 25 per cent.) and Blue Spyder B 2016 Limited (as to 16.7 per cent.). They have entered into a shareholders’ agreement (the “**Shareholders’ Agreement**”) governing the exercise of their rights in SGN.

SSE, which was formed in December 1998 by the merger of Scottish Hydro-Electric plc and Southern Electric plc, is a FTSE-100 company and is one of the largest energy companies in the UK. It is involved in the

generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; electrical, environmental and utility contracting; and telecoms.

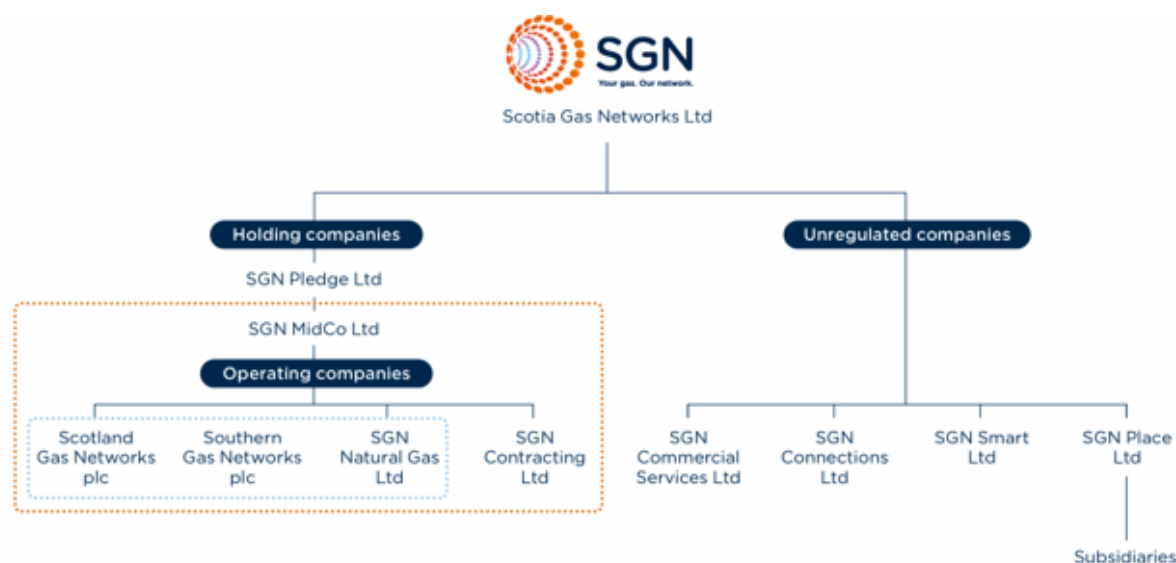
BIEUK is indirectly wholly owned by OMERS Administration Corporation (“OMERS”). OMERS is responsible for the pension income of over 496,000 members employed or formerly employed by Ontario Municipalities or their related agencies. OMERS has a AAA credit rating from DBRS and a AA+ credit rating from Standard & Poor’s and has over C\$97 billion in net investment assets as at 31 December 2018. OMERS Infrastructure Management Inc. (“OIM”), which manages BIEUK, identifies, invests in and manages infrastructure assets on behalf of OMERS. OIM currently manages equity infrastructure investments of approximately C\$17.9 billion in Canada, the United States, Latin America, Asia-Pacific and Europe.

OIUK is owned by the Ontario Teachers’ Pension Plan (“OTPP”), which is an independent corporation responsible for investing and administering the pensions of Ontario’s 327,000 working and retired teachers. With net assets of C\$191.1 billion as at 31 December 2018, it is one of the largest financial institutions in Canada. OTPP is a significant long-term holder of infrastructure assets in North America, Europe, South America and Australia. As at 31 December 2018 its infrastructure investments totalled C\$17.8 billion.

Blue Spyder B 2016 Limited is a wholly-owned subsidiary of the Abu Dhabi Investment Authority (“ADIA”). ADIA is a public institution established by the Government of the Emirate of Abu Dhabi in 1976 as an independent investment institution. Since then, ADIA has been prudently investing funds on behalf of the Government of Abu Dhabi, with a focus on long-term value creation. ADIA manages a global investment portfolio that is diversified across more than two-dozen asset classes and sub-categories.

## Group Structure

The following diagram shows the SGN Group of which the Issuers form part.



## Principal Activities

The principal activities of the Issuers are the transportation of gas and the ownership, operation and development of the gas distribution network in their respective areas of operation.

## Objectives and strategy

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

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

## Management

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

Answering directly to the Board of Directors of SGN and each Issuer is John Morea, Chief Executive Officer, who is supported by Michael Carmedy, Chief Financial Officer and an executive management team. Further details are set out in "*Business Description — Management*" on pages 96 to 98 (inclusive).

SSE provides certain corporate support services to the Issuers.

## Issuance of Notes

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

## Programme

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

## Key Aspects of the GT Licences

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

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

- (i) restricting the Issuers from disposing of or relinquishing operational control over their transportation assets without obtaining prior consent from the Authority;
- (ii) restricting the businesses and activities which the Issuers may perform in addition to gas transportation (save with the Authority's prior consent and with certain exceptions);
- (iii) prohibiting cross-subsidies to or from any other business of the Issuers (or their affiliates);

- (iv) requiring that the Issuers have sufficient financial and operational resources to carry out their gas transportation business properly and efficiently and to comply with their regulatory obligations;
- (v) requiring the Issuers to take all appropriate steps to maintain investment grade credit ratings; and
- (vi) restricting the Issuers' abilities to incur indebtedness, create security or enter into cross-default obligations.

*This overview should be read in conjunction with the Terms and Conditions of the Notes (in particular the covenants given by each Issuer) and with the detailed information set out elsewhere in this Prospectus including the sections entitled "Business Description — Regulatory Framework" on pages 84 to 86 (inclusive) which goes into more detail on the GT Licences and the associated legal and regulatory regime in which the Issuers operate and "Risk Factors - Regulatory and legislative compliance" on page 24.*

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

### **Price Control Regime**

Each Issuer's allowed revenue (in terms of transportation charges) is determined by the gas distribution price controls set out in the terms of their GT Licences. These price controls are set by the Authority in accordance with Ofgem's RIIO principles (see "*Business Description — Price Control*" for further details) and are subject to periodic review. The current price control (the "**GD1 Control**") took effect on 1 April 2013 and will remain in force until 31 March 2021. The next price control (the "**GD2 Control**") will take effect on 1 April 2021 and will remain in force for five years until 31 March 2026.

Revenue allowances are calculated by reference to a combination of predicted expenditure, permitted returns and other considerations (as described more fully below). Base allowed revenues are fixed in £m terms at the outset of each price control, however they are subject to periodic recalculation over the course of the period that the price control remains in force by reference to changes in key variables.

For the GD1 Control, the base allowed revenue is recalculated taking into account, among other things, uncertainty mechanisms, performance against the total expenditure allowances awarded, total operating costs and symmetrical incentive schemes relating to customer service, leakage and other targets. Movements in revenue associated with the reward schemes are reflected as an adjustment two years after the incentive is earned. The resulting figure is then inflated to current prices using a forecast of the UK retail price index ("**RPI**"). Where actual RPI differs from the forecasts used, a true-up adjustment is applied to take account of the difference.

It should be noted that, as prices are based on certain assumptions at the beginning of each year there is inevitably a difference at the end of the year between actual revenues collected and the maximum allowed revenue calculated. The difference between the two (adjusted for interest) is carried forward two years. This adjustment is known as the "**k-factor**" and protects gas distribution networks against the risk that revenues may be volatile intra year. Further, it is noted that revenues for some services are not regulated by the price control formulae but are either permitted by Ofgem or subject to *de minimis* caps. These include, for example, charges for certain metering services, and maintenance and emergency response services which are performed by the Issuers on behalf of third parties.

Ofgem is still consulting with stakeholders in relation to the GD2 Control. The only known changes to the mechanics of the price control regime at this stage in the RIIO-GD2 price control process, from those above, are the switch to CPIH indexation and a 5-year price control period.

For a further description of the regulatory regime governing the Issuers' businesses and revenues, see "*Business Description — Regulatory Framework*" on pages 84 to 86 (inclusive) and "*Business Description — Price Control*" on pages 86 to 90 (inclusive).

### **MidCo Financing**

SGN has an investment grade financing platform in a ringfenced group of companies at the level of MidCo, the direct holding company of its regulated businesses.

The Issuers are part of the ringfenced group but the secured creditors in respect of the MidCo Financing have only limited recourse to the Issuers. For a further description of the MidCo Financing, see "*Business Description — MidCo Financing*" on page 95.

## ISSUER AND PROGRAMME DESCRIPTION

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

<b>Issuers:</b>	Southern Gas Networks plc and Scotland Gas Networks plc
<b>Legal Entity Identifier of the Issuers</b>	549300SPX8573VZ2SK79 (Southern Gas Networks plc) and 549300Y7M5CC1U5DBX07 (Scotland Gas Networks plc)
<b>Website of the Issuers:</b>	<a href="https://www.sgn.co.uk">https://www.sgn.co.uk</a>
<b>Programme Amount:</b>	Up to £5,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes Outstanding (as defined in the Trust Deed dated 17 October 2014 in respect of the Programme, as amended and supplemented by the First Supplemental Trust Deed dated 25 February 2016, the Second Supplemental Trust Deed dated 2 March 2018 and the Third Supplemental Trust Deed dated 2 October 2019 (the “ <b>Trust Deed</b> ”)) at any one time, subject to increase in accordance with the terms of the Programme Agreement.
<b>Arranger:</b>	Barclays Bank PLC
<b>Programme Dealers:</b>	Barclays Bank PLC CIBC World Markets plc Lloyds Bank Corporate Markets plc MUFG Securities EMEA plc NatWest Markets Plc RBC Europe Limited  The Issuers may, from time to time, terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme.  References in this Prospectus to “ <b>Programme Dealers</b> ” are to the Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “ <b>Dealers</b> ” are to all Programme Dealers and all persons appointed from time to time as a dealer in respect of one or more Tranches.
<b>Trustee:</b>	Citicorp Trustee Company Limited.
<b>Principal Paying Agent:</b>	Citibank, N.A. London Branch.
<b>Registrar and Transfer Agent:</b>	Citibank, N.A. London Branch.
<b>Hedging Policy:</b>	Each Issuer will covenant to comply with a hedging policy, as further described in “ <i>Covenants of the Issuers</i> ” below.

<b>Method of Issue:</b>	<p>Notes will be issued on a syndicated or non-syndicated basis. Notes will be issued in series (each a “<b>Series</b>”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and/or issue price). Notes of each Series are intended to be interchangeable with all other Notes of that Series.</p> <p>Each Series may be issued in tranches (each a “<b>Tranche</b>”) on the same or different issue dates. The specific terms of each Tranche will be set out in the Final Terms in the form set out in this Prospectus. Tranches of Notes within the same Series will be consolidated to form a single Series (having identical terms as the other Tranche(s) of the same Series, save in respect of the issue date, issue price, first payment of interest and nominal amount).</p>
<b>Issue Price:</b>	<p>The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.</p> <p>Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.</p>
<b>Form of Notes:</b>	<p>The Notes may be issued in bearer form (“<b>Bearer Notes</b>”) or in registered form (“<b>Registered Notes</b>”). Each Tranche of Bearer Notes will be represented on issue by a Temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than 183 days and are being issued in compliance with the TEFRA D Rules (as defined in “<i>Selling Restrictions</i>” below), otherwise such Tranche will be represented by a Permanent Global Note. Registered Notes will be represented on issue by a Global Certificate. Registered Notes will not be exchangeable for Bearer Notes.</p>
<b>Clearing Systems:</b>	<p>Clearstream, Luxembourg and Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Principal Paying Agent and the relevant Dealer.</p>
<b>Initial Delivery of Notes:</b>	<p>On or before the issue date for each Tranche, if the relevant Global Note is a NGN, or the relevant Global Certificate is intended to be held in the NSS, the Global Note representing Bearer Notes or Global Certificate representing Registered Notes, as applicable, will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not intended to be held in the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes, as applicable, will be delivered to a common depository for Euroclear and Clearstream, Luxembourg. Global Notes or Global Certificates may also be delivered to any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Principal Paying Agent, the Registrar in the case of Registered Notes, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.</p>



<b>Currencies:</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in pounds sterling, euro or U.S. dollars or any other currency agreed between the relevant Issuer and the relevant Dealers.
<b>Maturities:</b>	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued with any maturity as specified in the applicable Final Terms.
<b>Denomination:</b>	Notes will be issued in a minimum denomination of not less than €100,000 or the equivalent in any other currency as agreed between the relevant Issuer and the relevant Dealer(s) (provided always that Notes issued in pounds sterling will be issued in a minimum denomination of £100,000) and in such amounts that are equivalent to at least €100,000 at the date of issue.  Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) having a maturity of less than one year from their date of issue and in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom or whose issue would, absent the following, otherwise constitute a contravention of Section 19 of the FSMA), will have a minimum denomination of £100,000 (or its equivalent in other currencies) or be issued in other circumstances which do not constitute a contravention by the relevant Issuer of Section 19 of the FSMA.
<b>Fixed Rate Notes:</b>	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.
<b>Floating Rate Notes:</b>	Floating Rate Notes will bear interest determined separately for each Series as follows: <ul style="list-style-type: none"> <li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions;</li> <li>(ii) by reference to LIBOR, LIBID, LIMEAN, EURIBOR or SONIA as adjusted for any applicable margin; or</li> <li>(iii) on such other basis as may be agreed between the relevant Issuer and relevant Dealer(s),</li> </ul> as indicated in the applicable Final Terms.
<b>Zero Coupon Notes:</b>	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
<b>Index Linked Notes:</b>	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to RPI, CPI or CPIH, as specified in “ <i>Terms and Conditions of the Notes</i> ”.
<b>Interest Periods and Interest Rates:</b>	The length of the interest periods for Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Final Terms.
<b>Benchmark Discontinuation</b>	On the occurrence of a Benchmark Event, an Independent Adviser (as defined in Condition 5(m)) may determine a Successor Rate, failing which an Alternative Rate and, in either case, an Adjustment Spread, if any, and any Benchmark Amendments in accordance with Condition 5(l) ( <i>Benchmark Discontinuation</i> ).

<b>Redemption Amount:</b>	With the exception of Zero Coupon Notes and Index Linked Notes and subject to any purchase and calculation or early redemption, the Notes will be redeemed at par. Notes which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).
<b>Status of Notes:</b>	Notes will constitute unsubordinated and unsecured obligations of the relevant Issuer, as described in Condition 3 ( <i>Status of Notes</i> ). There will be no cross-default or cross-collateralisation between the obligations of Scotland GN and Southern GN.
<b>Negative Pledge:</b>	Notes will have the benefit of a negative pledge which is subject to certain exceptions in respect of “ <b>Permitted Security Interests</b> ” as described in Condition 4 ( <i>Negative Pledge</i> ).
<b>Events of Default:</b>	The events of default under the Notes are as specified in Condition 11 ( <i>Events of Default</i> ). In particular, Notes issued by each Issuer will have the benefit of a cross-default provision in relation to other Tranches of Notes issued by that Issuer as described in Condition 11(a)(iii).
<b>Rating:</b>	<p>Tranches of Notes issued under the Programme may be rated or unrated. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. As at the date of this Prospectus, the long term unsecured, unguaranteed and unsubordinated debt obligations of each Issuer have been rated: BBB+ by Standard &amp; Poor’s, Baa1 by Moody’s and BBB+ by Fitch. As of the date, of this Prospectus, each of Standard &amp; Poor’s, Moody’s and Fitch is established in the European Union and registered under the CRA Regulation.</p> <p>As per Standard and Poors’ Global Ratings Definitions for Long-Term Issue Credit Ratings, an obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation. The modifier '+' shows the relative standing within the 'BBB' category.</p> <p>As per Fitch’s Rating Definitions for Corporate Finance Obligations, 'BBB' ratings indicate that expectations of credit risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity. The modifier '+' is appended to denote relative status within the 'BBB' category.</p> <p>As per Moody’s Global Long-Term Rating Scale in its Rating Symbols and Definitions, obligations rated 'Baa' are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. The modifier '1' indicates that the obligation ranks in the higher end of its generic rating category.</p>
<b>Optional Redemption:</b>	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part), and if so the terms applicable to such redemption.

<b>Early Redemption:</b>	Except as provided in “ <i>Optional Redemption</i> ” above, Notes will be redeemable at the option of the relevant Issuer prior to maturity only for tax or index event reasons. See Condition 7 ( <i>Redemption, Purchase and Options</i> ).
<b>Withholding Tax:</b>	All payments of principal and interest in respect of Notes will be made free and clear of withholding taxes of the United Kingdom, subject to certain exceptions, all as described in Condition 9 ( <i>Taxation</i> ).
<b>Governing Law:</b>	The Notes and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law.
<b>Listing and admission to trading:</b>	Application has been made to the FCA for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s regulated market.
<b>Selling Restrictions:</b>	<p>For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom and Japan, see “<i>Subscription and Sale</i>”.</p> <p>Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.</p> <p>The Bearer Notes will be issued in compliance with U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Internal Revenue Code of 1986, as amended) (the “<b>TEFRA D Rules</b>”) unless the Bearer Notes are issued other than in compliance with the TEFRA D Rules but generally in circumstances in which Notes will not constitute “registration required obligations“ under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“<b>TEFRA</b>“), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.</p>
<b>Further Issues:</b>	Each Issuer may from time to time without the consent of the relevant Noteholders or Couponholders create and issue further Notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in the Terms and Conditions of such Notes to “ <b>Issue Date</b> “ shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single Series with such Notes, and references in the Terms and Conditions to “ <b>Notes</b> ” shall be construed accordingly provided always that the Regulated Asset Ratio of the relevant Issuer (calculated on a <i>pro forma</i> basis following the issuance of such further Notes) would not be greater than 0.775:1.
<b>Covenants of the Issuers:</b>	<p>In connection with the Programme, for so long as any Note remains Outstanding (as defined in the Trust Deed) each Issuer will severally covenant in favour of the Trustee:</p> <ul style="list-style-type: none"> <li>(a) not to change the nature of its business if such change in business is not in compliance with its obligations under its GT Licence;</li> <li>(b) to operate its business in accordance with its GT Licence and not to transfer its GT Licence;</li> <li>(c) to provide to the Trustee within 150 days of 31 March and within 90 days of 30 September in each year a certificate signed by two directors stating its Regulated Asset Ratio;</li> </ul>

- (d) not, directly or indirectly, to make any Distribution unless (i) the certification referred to in paragraph (c) above confirms that the Regulated Asset Ratio is not greater than 0.775:1 and (ii) the Regulated Asset Ratio following the payment of such Distribution would not be greater than 0.775:1 (and will not put in place alternative arrangements, the purpose of which is intended to circumvent any such limitation on the payment of Distributions);
- (e) not to incur further Financial Indebtedness (as defined in Condition 12 (*Covenants*)) if the Regulated Asset Ratio would be greater than 0.775:1 (adjusted on a *pro forma* basis to take account of the proposed incurrence of such further Financial Indebtedness);
- (f) to comply with a hedging policy containing the following provisions (as more particularly described in the Trust Deed):
  - (i) all non-sterling interest bearing debt will be fully hedged into sterling (or the then currency of the United Kingdom of Great Britain and Northern Ireland); and
  - (ii) a minimum of 70 per cent. of debt of each Issuer will be (A) fixed rate, (B) index-linked or (C) hedged so that the interest exposure of the relevant Issuer is either fixed rate or index-linked;
- (g) to give notice to the Trustee of (i) late payment under the Notes; (ii) the occurrence of a Restructuring Event; (iii) the occurrence of a Rating Downgrade; and (iv) the occurrence of an Event of Default; and
- (h) to use its reasonable endeavours to maintain an investment grade rating in respect of its long-term unsecured, unguaranteed and unsubordinated debt obligations.

## RISK FACTORS

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

### **Factors that may affect the Issuers' ability to fulfil their obligations under Notes issued under the Programme or their ability to comply with the Conditions.**

#### *Risks relating to the Issuers and their businesses*

##### **1 Price Control RIIO – GD2**

*(See “Business Description – Price Control”)*

As further disclosed on pages 89 to 90, a new price control, the GD2 Control, period will take effect from April 2021, lasting for five years to March 2026. The current indications are that this will be the most challenging regulatory review yet. The heightened factors include the retention of relative under/over performance of actual total expenditure relative to allowances, changes to the indexation of regulatory asset value (“RAV”) and allowed revenues and the current working assumptions for the allowed return on equity.

The Issuers are maintaining regular dialogue with the Regulator and actively participating in the working groups to influence the development of the next price control which will take effect on 1 April 2021 and will remain in force until 31 March 2026 (“RIIO – GD2”). In particular, the Issuers are planning to press the case for an equitable balance to be struck between the interests of all the Issuers' different stakeholders, to ensure a safe, secure and affordable supply of gas is maintained throughout the UK.

Nevertheless, there is a risk that the regulatory settlement for the GD2 Control will be adverse to the Issuers and, as a result, the Issuers may not be allowed to generate sufficient revenues to enable each of them to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

##### **2 Cyber Security Risk and IT Service Failure**

*(See “Business Description – Information Systems and Networks”)*

As further disclosed on page 83, it is critical for the Issuers to maintain a high degree of focus on the effectiveness, availability, integrity and security of information systems. The volume and complexity of cyber security threats are increasing and constantly evolving, especially from hostile nation states. Increasing use of information technology and connected “smart” operational technology gives rise to new types of cyber and information security threats that are continuously being utilised by state sponsored cells as well as smaller groups. This means cyber security and IT failure is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers have a long-term information security programme which includes regular tests of their networks with government approved security partners. Furthermore, threat intelligence and response capability has been

adopted to reduce cyber risk and an experienced business manager has been appointed to continue developments in business continuity plans and crisis management processes. In addition, the Issuers have bought and developed a managed security service with an external provider as well as utilising a skilled inhouse team of security specialists to improve the defensive capabilities of their respective organisations. However, notwithstanding these mitigation procedures, there remains a risk that the Issuers' security measures will not be sufficient to prevent, respond to or recover from all possible breaches. A breach of its information system could cause a serious disruption to the business of the relevant Issuer, and therefore its ability to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

Further, loss of or misuse of data or interruptions to key business systems could have an adverse impact on the security of critical national infrastructure and the Issuers' operational assets, financial performance and customer service metrics. In addition, this could result in breaches of legislation, including, but not limited to, data protection legislation and the directive on the security of network and information systems (Directive (EU) 2016/1148) which could lead to significant penalties that could have an adverse impact on the Issuers' financial condition and/or reputation.

### **3 Political and Policy Risks**

#### ***Government intervention in the gas market***

*(See “Business Description — Political and Other Developments”)*

Future intervention by the UK Government in the gas markets, or changes in governmental policy, may have an adverse impact on the Issuers.

Although the Issuers are seeking to mitigate the expected negative impact of this risk and to reduce the likelihood of its occurrence by engaging openly and constructively with legislators, officials and other policy makers on all aspects of energy and related environmental policies to highlight the long-term value of their networks and benefits to consumers, there remains a risk that adverse future intervention by the UK Government in the gas markets, or changes in governmental policy, may not allow the Issuers to generate sufficient revenues to enable each of them to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

#### ***Future of the gas network is threatened if the energy mix scenarios rule out a role for gas by switching to other heat systems***

*(See “Business Description — Political and Other Developments”)*

As further disclosed on pages 93 to 94 (inclusive), the energy system is seeing unprecedented change. Every initiative towards the energy future is a complex balance between three competing needs of the energy trilemma: affordability, security of supply and decarbonisation. The Issuers are piloting projects to evidence future use of gas (including hydrogen) and working with others to test potential decarbonisation pathways but there is a risk that there may be a reduction in the use of gas networks in the future and, as a result, the Issuers may not generate sufficient revenues to enable each of them to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

#### ***Nationalisation Policy of the Labour Party***

*(See “Business Description – Political and Other Developments”)*

As further disclosed on pages 93 to 94 (inclusive), the Labour Party published a paper called “*Bringing Energy Home*” which sets out its current stated policy to transfer to public Regional Energy Agencies the ownership, maintenance and operations of electricity and gas distribution companies, including the Issuers.

Although it is unclear what impact any nationalisation would have on Noteholders, the paper suggests that existing debts would be carried over with the companies under public ownership and honoured in full. Such future intervention by the UK Government in the gas markets, or changes in governmental policy, may affect the Issuers' ability to meet their payment obligations under the Notes or comply with the terms and conditions of the Notes.

#### ***Exit from the European Union***

*(See "Business Description – Political and Other Developments")*

As further disclosed on pages 93 to 94 (inclusive), the UK is currently due to withdraw from the European Union on 31 October 2019. If the UK leaves the EU with no withdrawal agreement, it is likely that a high degree of political, legal, economic and other uncertainty, including relating to the EU internal energy market, could result. The Issuers' current view is that the UK's expected withdrawal from the EU will not have a direct material impact on their business models.

However, their assessments are ongoing and the continuing uncertainty around this area means that it could negatively affect the ability of each Issuer to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

#### **4 Health and Safety**

*(See "Business Description – Health and Safety Regulation")*

As further disclosed on pages 92 to 93 (inclusive), the Issuers are subject to health and safety regulations. Failures in the design or implementation of the Issuers' safety, health and environmental management systems may result in unsafe behaviour and working practices. This is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers have a continued focus on safety across all assets and operations. The Safety, Health and Environmental Advisory Committee of the Board and the Engineering Safety Committee ("ESC") are responsible for ensuring the Issuers' safety, health and environmental policies are developed and adhered to. Compliance is supported by independent inspections and an audit programme and any issues found are reported to the ESC. Furthermore, the Issuers have ongoing safety initiatives which include rolling out behavioural based intervention focusing on employee behaviour and risk awareness.

However, notwithstanding these mitigation measures, there remains a risk that the Issuers fail in the design or implementation of their safety, health and environmental management systems or breach health and safety regulations. This could result in injuries or fatalities involving employees, contractors or members of the public, asset damage or loss, harm to the environment and prosecution under relevant legislation. This means that the relevant Issuer's costs may not be covered by its allowed revenues and it may therefore not have sufficient funds to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

#### **5 Maintaining a competent, productive and talented workforce**

*(See "Business Description – Workforce Development and Training")*

As further disclosed on page 83, the Issuers maintain a strong focus on developing and maintaining the competence of their workforce, ensuring any lessons learnt from incidents are implemented across their business. Failure to maintain a competent workforce is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers regularly review their workforce planning and recruitment programme and support this with compliance audits, ensuring that critical skills and knowledge are retained in the business. Further, talent management

processes including succession planning are being enhanced to improve identification and retention of key talent. Employer brand and remuneration packages are being reviewed to attract good candidates and also enhance inclusivity and diversity within the Issuers.

However, notwithstanding these mitigation procedures, there remains a risk that the Issuers fail to maintain a sufficiently competent, diverse and productive workforce with effective relationships and sufficient talent. This may result in resource/workload mismatches, failure to meet licence, regulatory or legislative requirements or take advantage of business opportunities and each Issuer may therefore not have sufficient funds to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

## **6 Regulatory and legislative compliance**

*(See “Business Description – Regulatory Framework”)*

As further disclosed on pages 84 to 86 (inclusive), the Issuers are subject to an extensive regulatory framework and other obligations. Failure by an Issuer to comply with the applicable regulatory framework and obligations is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers have governance and compliance frameworks in place to deal with issues and developments arising from price controls. Further, the Issuers have experienced regulation, finance and legal teams which manage compliance requirements and engage with all levels of Ofgem and government and the delivery of regulatory outputs is measured and monitored on a regular basis.

However, notwithstanding these mitigation measures, there remains a risk that an Issuer may fail to comply with regulatory requirements and this could result in prosecution, financial penalties and damage to the Issuers’ reputations, in which case the relevant Issuer may not have sufficient funds to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

## **7 Asset management systems**

*(See “Business Description - Operation and Development of the Gas Transportation Networks”)*

As further disclosed on pages 82 to 83 (inclusive), each Issuer is responsible for the construction, replacement and maintenance of network assets in its network. Failure in the design or implementation of each Issuer’s asset management systems and the threat of business disruption from terrorist activity is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers oversee a process of asset integrity and risk-based management and regular emergency exercises and testing are conducted at key sites. The Issuers also have an ongoing security improvement programme for designated sites based on the Centre for the Protection of National Infrastructure’s good practice and crisis management, and business continuity plans are regularly evaluated. Further, the Issuers have capital spending and maintenance programmes over which the Investment Committee and Engineering and Safety Committee provide oversight and guidance.

However, notwithstanding these mitigation measures, an Issuer may fail in the design or implementation of its asset management systems and this may result in a major incident leading to a loss of life, an adverse impact on the environment, loss of assets, prosecution under relevant legislation, and failure to meet the relevant Issuer’s licence conditions. This, in turn, could adversely affect the business and reputation of the Issuers and therefore their ability to meet their respective payment obligations under the Notes or comply with the terms and conditions of the Notes.



## 8 Finance

### *Failure to finance the Issuers' obligations*

(See “*Business Description - Operation and Development of the Gas Transportation Networks*”)

As further disclosed on pages 82 to 83 (inclusive), each Issuer is responsible for the construction, replacement and maintenance of network assets in its network. Failure to finance these (and other) obligations is a risk to the business of the Issuers.

To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, the Issuers' funding position is regularly reported to the board and the Regulator, giving comfort that funding is available and there is continuous monitoring of the markets, including foreign exchange, interest rate and inflation rate movements. Further, financing activities and relationships are maintained and developed with a diversified source of funding providers, performance is tracked against allowances and monitoring of key performance indicators is carried out as part of the business planning process.

However, notwithstanding these mitigation measures, an Issuer could fail to finance its obligations and new projects due to the economic climate, lack of availability of finance or a failure to set appropriate targets and sufficient management information. This, in turn, could lead to the Issuers' inability to deliver expected financial returns and therefore each Issuer's ability to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

### *MidCo Financing*

(See “*Business Description – MidCo Financing*”)

SGN has an investment grade financing platform in a ring-fenced group of regulated companies at the MidCo level of its regulated businesses (the “**MidCo Financing**”).

The Issuers have made certain representations and given certain undertakings under the MidCo Financing. To the extent that the Issuers or either of them are in breach of any of such representations and covenants, there is a risk that action may be taken against them by way of a claim in damages for breach of contract under the MidCo Financing. To the extent any such claim against an Issuer is successful, this may reduce the amount of funds available to the relevant Issuer, and therefore its ability to meet its respective payment obligations under the Notes or comply with the terms and conditions of the Notes.

## 9 Insolvency Risks

(See “*Business Description – Special Administration Regime*”)

As further disclosed on page 86, the Issuers are subject to a special administration regime for protected companies. There is a risk that any transfer in the context of an energy administration regime could not be achieved on terms that would enable creditors to recover amounts due to them in full or that the creditors and members of the Issuer would recover as much as they would under other forms of insolvency.

### *Risks relating to Notes*

## 1 Liquidity Risks

(See *Terms and Conditions of the Notes*)

Notes may not have an established trading market when issued. There can be no assurance of a secondary market for Notes or the continued liquidity of such market if one develops. The secondary market for Notes

will be affected by a number of factors independent of the creditworthiness of the relevant Issuer and the value of any applicable index or indices, which may include the complexity and volatility of such index or indices, the method of calculating the principal or any interest to be paid in respect of such Notes, the time remaining to the maturity of such Notes, the outstanding amount of such Notes, any redemption features of such Notes, the amount of other securities linked to such index or indices and the level, direction and volatility of market interest rates generally. Such factors also will affect the market value of Notes.

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

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

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

## **2 Ratings of the Notes**

*(See Part B of the applicable Final Terms)*

The ratings anticipated to be assigned by the credit rating agencies to the Notes reflect only the views of the credit rating agencies and in assigning the ratings the credit rating agencies take into consideration the credit quality of the relevant Issuer and structural features and other aspects of the transaction. A rating is not a recommendation to buy, sell or hold securities and will depend, among other things, on certain underlying characteristics of the business and financial condition of each Issuer.

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

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

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

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

As further disclosed on pages 17 and 109, the principal of or any interest on Notes may be payable in, or determined by reference or indexed to, one or more Specified Currencies (including exchange rates and swap indices between currencies or currency units). For Noteholders whose financial activities are denominated principally in a currency or currency unit (the “**Noteholder’s Currency**”) other than the Specified Currency in which the related Notes are denominated, or where principal or interest in respect of Notes is payable by reference to the value of one or more Specified Currencies other than by reference solely to the Noteholder’s Currency, an investment in such Notes entails significant risks that are not associated with a similar investment in a Note denominated and payable in such Noteholder’s Currency.

Such risks include, without limitation, the possibility of significant changes in the rate of exchange between the applicable Specified Currency and the Noteholder’s Currency and the possibility of the imposition or modification of exchange controls by authorities with jurisdiction over such Specified Currency or the Noteholder’s Currency. Such risks generally depend on a number of factors, including financial, economic and political events over which each of the Issuers has no control. In addition, if the formula used to determine the amount of principal or interest payable with respect to a Note contains a multiple or leverage factor, the effect of any change in the applicable Specified Currency, index or formula will be magnified.

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

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

*(See Part A of the applicable Final Terms)*

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

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

*(See Conditions 9 (Taxation) and Condition 7(c) (Redemption for Tax Reasons) of the Terms and Conditions of the Notes)*

As further disclosed on page 102, in the event that withholding taxes are imposed by tax authorities in the United Kingdom in respect of payments due under the Notes, the relevant Issuer will (subject to certain exceptions described in Condition 9 (Taxation)) pay such additional amounts as will result (after such deduction or withholding) in receipt by the holders of Notes or Coupons of the amounts which would otherwise have been receivable (in the absence of such deduction or withholding) (a “**Gross-up**”).

If an Issuer is required to Gross-up it may not have sufficient funds to make payments under the Notes. Yet, in certain circumstances, as described in Condition 7(c) (Redemption for Tax Reasons), each Issuer will have the option (but not the obligation):

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

## **6 Risks Related to the Structure of a Particular Issue of Notes – Notes with Optional Redemption by the Issuers**

*(See Condition 7 (Redemption, Purchase and Options) of the Terms and Conditions of the Notes)*

An optional redemption feature (as disclosed on pages 56 to 61 (inclusive)) of Notes is likely to limit their market value. During any period when the relevant Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

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

With respect to the Issuer Residual Call Option (Condition 7(i)), there is no obligation on the relevant Issuer to inform investors if and/or when the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued. The relevant Issuer has the right to redeem the Notes pursuant to Condition 7(i) at the Optional Redemption Amount specified for such purpose in the applicable Final Terms, notwithstanding that immediately prior to the serving of a notice in respect of the exercise of the Issuer Residual Call Option (Condition 7(i)) by the relevant Issuer, the Notes may have been trading significantly above such redemption price. Exercise of the Issuer Residual Call Option (Condition 7(i)) may therefore (subject to the price at which Noteholders purchased the relevant Notes) result in Noteholders receiving less than their initial investment on such redemption of the Notes. Neither the Trustee nor any Paying Agent will be responsible for monitoring whether the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued or for ensuring that the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued when the Issuer Residual Call Option is exercised.

## **7 Risks Related to the Structure of a Particular Issue of Notes – Floating Rate Notes**

*Fallback arrangements could adversely affect certain Floating Rate Notes*

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

Condition 5(b) (*Rate of Interest for Floating Rate Notes*), as disclosed on pages 39 to 42 (inclusive), sets out how the Rate of Interest for Floating Rate Notes is determined, including a number of fallbacks. A particular risk is that, through the operation of such fallbacks and where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined, the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date and the Floating Rate Notes will, in effect, become fixed rate Notes. The mechanisms for the determination of the Rate of Interest for Floating Rate Notes may lead to uncertainty as to the Rate of Interest that would be applicable and may adversely affect the value of, and return on, such Floating Rate Notes. Further, the operation of these fallback arrangements could result in a different return for Noteholders and Couponholders (which may include payment of a lower Rate of Interest) than they might receive under other similar securities which contain different or no fallback arrangements (including which they may otherwise receive in the event that legislative measures or other initiatives (if any) are introduced to transition from any given interbank offered rate to an alternative rate).

Furthermore, there is uncertainty as to the continuation of the Original Reference Rate, in particular where the Original Reference Rate is an interbank offered rate (an “**IBOR**”) (for example, LIBOR). If a Benchmark Event (which, amongst other events, includes the permanent discontinuation of an Original Reference Rate) occurs in respect of a Floating Rate Note, the fallback arrangements in Condition 5(1) (*Benchmark Discontinuation*) apply

with a view to determining, through an Independent Adviser to be appointed by the Issuer (on a reasonable endeavours basis), a Successor Rate or Alternative Rate and (where applicable) the Adjustment Spread and other Benchmark Adjustments.

The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest will result in the Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form. Further, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Noteholders and Couponholders,

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the Conditions. Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event will result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming fixed rate Notes.

### ***Fixed/Floating Rate Notes***

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

As further disclosed on pages 39 to 56 (inclusive) and pages 110 to 113 (inclusive), Fixed/Floating Rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

### ***Notes that reference SONIA***

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

As further disclosed on pages 40 to 42 (inclusive), the Issuers may issue Floating Rate Notes referencing SONIA. Investors should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants

and relevant working groups are exploring alternative reference rates based on SONIA, including term SONIA reference rates (which seek to measure the market's forward expectation of an average SONIA rate over a designated term).

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Notes that reference a SONIA rate issued under this Programme. The Issuer may in the future also issue Notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA referenced Notes issued by it under the Programme. The development of Compounded Daily SONIA as interest reference rates for the Eurobond markets, as well as continued development of SONIA-based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA-referenced Notes issued under the Programme from time to time.

Furthermore, interest on Notes which reference Compounded Daily SONIA is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference Compounded Daily SONIA to estimate reliably the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to LIBOR-linked Notes, if Notes referencing Compounded Daily SONIA become due and payable as a result of an event of default under Condition 11 (*Events of Default*), the rate of interest payable for the final Interest Period in respect of such Notes shall only be determined immediately prior to the date on which the Notes become due and payable and shall not be reset thereafter.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SONIA.

Since SONIA is a relatively new market index, Notes linked to SONIA may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to SONIA such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of such Notes may be lower than those of later-issued indexed debt securities as a result. Further, if SONIA does not prove to be widely used in securities like the Notes, the trading price of such Notes linked to SONIA may be lower than those of Notes linked to indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. There can also be no guarantee that SONIA will not be discontinued or fundamentally altered in a manner that is significantly adverse to the interests of investors in Notes referencing SONIA. If the manner in which SONIA is calculated is changed, that change may result in a reduction of the amount of interest payable on such Notes and the trading prices of such Notes.

## **8 Risks Related to the Structure of a Particular Issue of Notes – Index Linked Notes**

*(See Condition 6 (Index Linked Notes) of the Terms and Conditions of the Notes)*

As further disclosed on pages 53 to 56 (inclusive), the Issuers may issue Index Linked Notes. The Index (as defined in Condition 6(a) (*Definitions*)) to which Index Linked Notes (as specified in the applicable Final Terms) may go down as well as up. Fluctuations in any Index may not correlate to changes in interest rates, currencies or other indices. Where Notes in respect of which the amount of interest payable is subject to adjustment by reference to movements in an Index are issued, a decrease in such Index over the reference period

will reduce the amount of interest payable in respect of such Notes. The timing of changes in the relevant Index may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the relevant Index, the greater the effect on yield. In a deflationary environment, the annual interest received may be lower than the amount specified in the applicable Final Terms.

Where the amount payable upon redemption of the Notes is subject to adjustment by reference to movements in an Index, a decrease in such Index over the reference period may reduce the amount to be repaid upon redemption of the Notes to less than the nominal amount of the Notes, unless the applicable Final Terms specifies a minimum redemption amount which is equal to or higher than the nominal amount of the Notes. Investors may lose up to the entire value of their investment and the redemption amount payable may be less than the initial purchase price or could be as low as zero.

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

## **9 Risks Related to the Structure of a Particular Issue of Notes –Notes linked to a “benchmark”**

### ***Regulation and reform of LIBOR, EURIBOR or other “benchmarks” could adversely affect any Notes linked to such “benchmarks”***

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (“LIBOR”), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“Benchmarks”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a significant adverse effect on any Notes referencing or linked to such Benchmark.

Further, changes to the administration of an IBOR such as LIBOR or the emergence of alternatives to an IBOR, may cause such IBOR to perform differently than in the past, or there could be other consequences which cannot be predicted. The discontinuation of an IBOR or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to such IBOR. The development of alternatives to an IBOR may result in Notes linked to or referencing such IBOR performing differently than would otherwise have been the case if the alternatives to such IBOR had not developed. Any such consequence could have a significant adverse effect on the value of, and return on, any Notes linked to or referencing such IBOR. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities (see “*The market continues to develop in relation to Notes that reference SONIA*”).

### ***Benchmark Regulation could adversely affect any Notes linked to a “benchmark”***

*(See Condition 5 (Interest and other Calculations) of the Terms and Conditions of the Notes)*

The Benchmark Regulation could have a material impact on any Notes linked to a "benchmark", such as LIBOR, including in any of the following circumstances:

- (i) an index which is a "benchmark" could not be used by a supervised entity in certain ways if its administrator does not obtain authorisation or register or, if based in a non-EU jurisdiction, the administrator is not otherwise recognised as equivalent; and

- (i) the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level of the benchmark.

Either of the above could potentially lead to the Notes being de-listed, adjusted or redeemed early or otherwise affected depending on the particular "benchmark" and the applicable terms of the Notes.

In addition, any other international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements.

Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks".

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

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

*(See “Summary of Provisions Relating to the Notes whilst in Global Form – Initial Issue of Notes”)*

As further disclosed on page 76, bearer Notes in NGN form and global registered Notes held under the NSS allow for the possibility of Notes being issued and held in a manner which will permit them to be recognised as eligible collateral for monetary policy of the central banking system for the euro (the “**Eurosystem**”) and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. However, in any particular case, such recognition will depend upon satisfaction of the Eurosystem eligibility criteria at the relevant time. Investors should make their own assessment as to whether the Notes meet such Eurosystem eligibility criteria.

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

*(See “Condition 1 (Form, Denomination and Title) of the Terms and Conditions of the Notes”)*

As further disclosed on pages 34 to 35 (inclusive), in relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination. This could adversely affect the market value of the Notes held by that holder.

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



## TERMS AND CONDITIONS OF THE NOTES

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

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

Notes are constituted by a Trust Deed dated 17 October 2014 in respect of the Programme, as amended and supplemented by the First Supplemental Trust Deed dated 25 February 2016, the Second Supplemental Trust Deed dated 2 March 2018 and the Third Supplemental Trust Deed dated 2 October 2019 (the “**Trust Deed**”) between *inter alios*, the Issuers and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Notes have the benefit (to the extent applicable) of an amended and restated agency agreement dated 2 October 2019 (the “**Agency Agreement**”) entered into between the Issuers, the Trustee and Citibank N.A. London Branch as principal paying agent and the other agents named in it. The persons specified in the Agency Agreement as the principal paying agent, the paying agents, the registrar and the transfer agents or appointed, unless specified otherwise in the applicable Final Terms, as calculation agent in the Agency Agreement and, in each case, any successor to such person in such capacity are referred to below respectively as the “**Principal Paying Agent**”, the “**Paying Agents**” (which expression shall, where applicable, include the Principal Paying Agent), the “**Registrar**”, the “**Transfer Agent**” and the “**Calculation Agent**” respectively. Notes may also have the benefit of a calculation agency agreement (substantially in the form of Schedule 1 to the Agency Agreement, the “**Calculation Agency Agreement**”) where an Issuer appoints a person (other than the Principal Paying Agent) as calculation agent and such calculation agent shall be specified in the applicable Final Terms, otherwise the calculation agent shall be the Principal Paying Agent (and in either such case, the “**Calculation Agent**”).

On 2 October 2019 the Issuers entered into an amended and restated programme agreement (the “**Programme Agreement**”) with the dealers named therein (the “**Dealers**”) in respect of the Programme, pursuant to which any of the Dealers may enter into a subscription agreement in relation to each Tranche of Notes to be issued by an Issuer, and pursuant to which the Dealers have agreed to subscribe the relevant Tranche of Notes.

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

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

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note. References to the applicable Final Terms are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note. The expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129.

## 1 Form, Denomination and Title

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

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

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

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

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

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**“). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Terms and Conditions, “**Noteholder**“ means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be) and “**holder**“ (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) save that, in respect of Notes of any Series, for as long as such Bearer Notes or any part thereof are represented by a global Note (“**Global Note**“) or such Registered Notes are represented by a global certificate (“**Global Certificate**“), held on behalf of Euroclear Bank SA/NV (“**Euroclear**“) and/or of Clearstream Banking S.A. (“**Clearstream Luxembourg**“), each person (other than Euroclear or Clearstream,

Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of Notes of such Series (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note.

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

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

## 2 Transfers of Registered Notes

- (a) *Transfer of Registered Notes:* One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) *Exercise of Options or Partial Redemption in Respect of Registered Notes:* In the case of an exercise of the Issuer’s Call Option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (c) *Delivery of New Certificates:* Each new Certificate to be issued pursuant to Condition 2(a) (*Transfer of Registered Notes*) or Condition 2(b) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall

be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(c), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (d) *Exchange at the Expense of Transferor Noteholder:* Registration of Notes on exchange or transfer will be effected at the expense of the transferor Noteholder by or on behalf of the Issuer, the Transfer Agent or the Registrar, and upon payment by the relevant Noteholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (e) *Closed Periods:* No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(d) (*Redemption at the Option of the Issuer (Issuer Maturity Call)*) or Condition 7(e) (*Redemption at the Option of the Issuer (Issuer Call) and Partial Redemption*) or Condition 7(i) (*Issuer Residual Call Option*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

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

Notes and Talons and Coupons constitute direct, general, unconditional and unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under Notes which it issues and the related Talons and Coupons shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future. Save as contemplated by Condition 4 (*Negative Pledge*), Notes and the related Talons and Coupons will not be secured by any of the property or assets of the Issuer or any of its subsidiaries. Thus, by owning a Note, Noteholders are one of the Issuer’s unsecured creditors.

### **4 Negative Pledge**

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

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

provided that the provisions of paragraphs (a) and (b) above will not apply and the Issuer shall have the right to grant Security Interests in respect of Negative Pledge Indebtedness without the obligation to provide

equivalent Security Interests to the Trustee where such Negative Pledge Indebtedness does not, in aggregate, exceed 5 per cent. of the Adjusted Regulated Asset Value.

For the purposes of this Condition 4:

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

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

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

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

“**Permitted Security Interest**” means:

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

- (i) any Security Interest securing indebtedness of the Issuer existing at 17 October 2005; or
- (j) any payment or close out netting or set-off arrangement pursuant to any derivative or hedging transaction entered into by a member of the SGN Group, provided that it does not cause a breach of the covenants on Financial Indebtedness (as defined in Condition 12 (*Covenants*)).

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

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

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

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

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

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

## 5 Interest and other Calculations

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

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

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

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form comprises more than one Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the aggregate of the amounts

(determined in the manner provided above) for each Calculation Amount comprising the Specified Denomination without any further rounding.

(b) *Interest on Floating Rate Notes:*

(i) *Interest Payment Dates:* Each Floating Rate Note bears interest from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the applicable Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown, Interest Payment Date shall mean each date which falls the number of months or other period shown in the applicable Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Period shall be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified.

(A) ISDA Determination for Floating Rate Notes

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

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

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

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(B) Screen Rate Determination (other than for Floating Rate Notes which reference SONIA)

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined, and the Reference Rate is not SONIA, the Rate of Interest for each Interest Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date (as defined in Condition 5(m) (*Definitions*)) in respect of such Interest Period in accordance with the following and subject to Condition 5(l) (*Benchmark Discontinuation*):

- (i) if the Page (as defined below) displays a rate which is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Relevant Rate (as defined in Condition 5(m) (*Definitions*));
- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Relevant Rates (as defined below) which appear on the Page as of the Relevant Time (as defined in Condition 5(m) (*Definitions*)) on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that Page or, in the case of (ii) above, fewer than two such rates appear on that Page or if, in either case, the Page is unavailable, the Calculation Agent will:
  - (a) request the principal Relevant Financial Centre office (as defined in Condition 5(m) (*Definitions*)) of each of the Reference Banks (as defined in Condition 5(m) (*Definitions*)) to provide a quotation of the Relevant Rate at approximately the Relevant Time on the relevant Interest Determination Date to prime banks in the Relevant Financial Centre Interbank Market (or, if appropriate, money market) in an amount that is representative for a single transaction in that market at that time; and
  - (b) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested in sub-paragraph (iii) above, the Calculation Agent will determine the arithmetic mean of the rates (being the rates nearest to the Relevant Rate as determined by the Calculation Agent quoted by the Reference Banks at approximately 11.00 a.m. (local time in the Relevant Financial Centre) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in the Representative Amount (as defined in Condition 5(m) (*Definitions*))),

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

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(C) Screen Rate Determination (for Floating Rate Notes which reference SONIA)

Where Screen Rate Determination is specified as the manner in which the Rate of Interest is to be determined, and the Reference Rate specified in the applicable Final Terms is SONIA, the Rate of Interest for each Interest Period will be the Compounded Daily SONIA as determined by the Calculation Agent plus or minus the Margin (as specified in the applicable Final Terms).

“**Compounded Daily SONIA**”, with respect to each Interest Period, will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the



resulting percentage will be rounded if necessary to the fourth decimal place, with 0.00005% being rounded upwards:

$$\left[ \prod_{i=1}^{d_0} \left( 1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

where:

“**d**” is the number of calendar days in the relevant Interest Period;

“**d<sub>0</sub>**” is the number of London Banking Days in the relevant Interest Period;

“**i**” is a series of whole numbers from one to **d<sub>0</sub>**, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period to, and including, the last London Banking Day in the relevant Interest Period which falls immediately prior to the next Interest Payment Date;

“**London Banking Day**” or “**LBD**” means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

“**n<sub>i</sub>**” for any London Banking Day “**i**”, means the number of calendar days from and including such London Banking Day “**i**” up to but excluding the following London Banking Day;

“**p**” is the number of London Banking Days included in the Reference Look Back Period, as specified in the applicable Final Terms.

“**Reference Look Back Period**” is as specified in the applicable Final Terms.

“**Reference Period**” means, in respect of an Interest Period, the period from and including the date falling “**p**” London Banking Days prior to the first day of such Interest Period and ending on, but excluding, the date falling “**p**” London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling “**p**” London Banking Days prior to such earlier date, if any, on which the Notes become due and payable);

the “**SONIA Reference Rate**”, in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average (“**SONIA**”) rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Page or, if the Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

“**SONIA<sub>i-pLBD</sub>**” means, in respect of any London Banking Day, falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day which is “**p**” London Banking Days prior to the relevant London Banking Day “**i**”.

*For the avoidance of doubt, the formula for the calculation of Compounded Daily SONIA only compounds the SONIA Reference Rate in respect of any London Banking Day. The SONIA Reference Rate applied to a day that is a non-London Banking Day will be taken*

by applying the SONIA Reference Rate for the previous London Banking Day but without compounding.

If, subject to Condition 5(1) (*Benchmark Discontinuation*), in respect of any London Banking Day in the relevant Reference Period, the Calculation Agent determines that the SONIA Reference Rate is not available on the Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be:

- (a) (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or
- (b) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, the SONIA Reference Rate published on the Page (or otherwise published by the relevant authorised distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Page (or otherwise published by the relevant authorised distributors).

Notwithstanding the paragraphs above, but subject to Condition 5(1) (*Benchmark Discontinuation*), if the Bank of England publishes guidance as to (i) how the SONIA Reference Rate is to be determined or (ii) any rate that is to replace the SONIA Reference Rate, the Calculation Agent shall, subject to receiving written instructions from the Issuer and to the extent that it is reasonably practicable, follow such guidance in order to determine SONIA for the purpose of the Notes for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors. To the extent that any amendments or modifications to the Conditions, the Trust Deed or the Agency Agreement are required in order for the Calculation Agent to follow such guidance in order to determine the Interest Rate, the Calculation Agent shall have no obligation to act until such amendments or modifications have been made in accordance with the Conditions, the Trust Deed and the Agency Agreement.

In the event that the Interest Rate cannot be determined in accordance with the foregoing provisions, the Interest Rate shall be that determined as at the last preceding Interest Determination Date.

If the Notes either (a) become due and payable in accordance with Condition 11 (Events of Default), or (b) are redeemed before the Maturity Date specified in the applicable Final Terms on a date which is not an Interest Payment Date in accordance with Condition 7 (Redemption, Purchase and Options) then, for such Notes (and in the case of limb (b) of this paragraph, only such Notes which are so redeemed), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the Final Terms, be deemed to be the date falling four London Banking Days prior to (i) the date on which the Notes became due and payable or (ii) the date fixed for such redemption, as applicable (with corresponding adjustments being deemed to be made to the Compounded Daily SONIA formula); **and** the Interest Rate on the Notes shall, for so long as the Notes remain outstanding, be that determined on such date.

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

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

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

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero

- (e) *Zero Coupon Notes:* Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 7(b)(i)(B) (*Early Redemption — Zero Coupon Notes*)).
- (f) *Business Day Convention:* If any date referred to in these Terms and Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:
- (i) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (X) such date shall be brought forward to the immediately preceding Business Day and (Y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment;
  - (ii) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day;
  - (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
  - (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (g) *Accrual of Interest:* Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue

to accrue (as well after as before judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9 (*Taxation*)).

- (h) *Maximum/Minimum Rates of Interest, Maximum/Minimum Redemption Amounts and Rounding:*
- (i) if any Maximum or Minimum Rate of Interest or Minimum/Maximum Redemption Amount is specified in the applicable Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be; and
  - (ii) for the purposes of any calculations required pursuant to these Terms and Conditions (unless otherwise specified), (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (B) all figures shall be rounded to seven significant figures (with halves being rounded up) and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the countries of such currency.
- (i) *Calculations:* The Interest Amount (as defined in Condition 5(m) (*Definitions*)) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period shall be calculated by applying the Rate of Interest to:
- (A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note or Global Certificate, the aggregate outstanding nominal amount of the Notes represented by such Global Note or Global Certificate; or
  - (B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

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

- (j) *Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:* Subject to Condition 5(l) (*Benchmark Discontinuation*), as soon as practicable after the Relevant Time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of Notes for the relevant Interest Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount (each as defined in Condition 5(m) (*Definitions*)), obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Principal Paying Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of Notes that is to make a further calculation upon receipt of such information and, if Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority, as soon as possible after their determination but in no event later than (i) the commencement of the relevant

Interest Period, if determined prior to such time, in the case of notification of a Rate of Interest and Interest Amount (if the Reference Rate is not SONIA), (ii) the Interest Payment Date for the relevant Interest Period in the case of notification of a Rate of Interest and Interest Amount (if the Reference Rate is SONIA) or (iii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If Notes become due and payable under Condition 11 (*Events of Default*) the accrued interest and the Rate of Interest payable in respect of Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (k) *Calculation Agent and Reference Banks:* The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the applicable Final Terms and for so long as any Note is Outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of Notes, references in these Terms and Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Terms and Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.
- (l) *Benchmark Discontinuation*

Notwithstanding the forgoing provisions:

- (i) *Independent Adviser:* If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(l)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(l)(iii)) and any Benchmark Amendments (in accordance with Condition 5(l)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(l) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Trustee, the Paying Agents, or the Noteholders or the Couponholders for any determination made by it, pursuant to this Condition 5(l).

If (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in

accordance with this Condition 5(l)(i) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(l)(i).

- (ii) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that:
  - (A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(l)); or
  - (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(l)).
- (iii) *Adjustment Spread*: The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).
- (iv) *Benchmark Amendments*: If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(l) and the Independent Adviser, determines (i) that amendments to these Conditions, the Agency Agreement and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(l)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions, the Agency Agreement and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two Authorised Signatories of the Issuer pursuant to Condition 5(l)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed), **provided that** the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would (i) impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way, or

(ii) expose the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction.

In connection with any such variation in accordance with this Condition 5(l)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

- (v) *Notices, etc.:* Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(l) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Registrar, the Transfer Agent, the Paying Agents and, in accordance with Condition 16, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer:

- (A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate, (iii) the applicable Adjustment Spread and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(l); and
- (B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

- (vi) *Survival of Original Reference Rate:* Without prejudice to the obligations of the Issuer under Condition 5(l)(i), 5(l)(ii), 5(l)(iii) and 5(l)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(ii)(B) will continue to apply unless and until a Benchmark Event has occurred.

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

**“Adjustment Spread”** means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;

or (if no such recommendation has been made, or in the case of an Alternative Rate)

- (ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate;

or (if the Independent Adviser determines that no such spread is customarily applied)

- (iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(1)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes and in respect of the same period of interest.

“**Benchmark Amendments**” has the meaning given to it in Condition 5(1)(iv).

“**Benchmark Event**” means:

- (i) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist;
- (ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes;
- (v) a public statement by the regulatory supervisor for the administrator of the Original Reference Rate announcing that the Original Reference Rate is no longer representative; or
- (vi) it has become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that in the case of sub-paragraphs (ii), (iii) and (iv), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.



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

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

Day Count Fraction =

where:

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

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

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

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

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

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

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

Day Count Fraction =

where:

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

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

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

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

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

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

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

Day Count Fraction =

where:

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

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

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer (at its own expense) under Condition 5(l)(i).

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

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

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Period, the date specified as such or, if none is so specified, (i) the first day of such Interest Period if the Specified Currency is sterling and the Reference Rate is not SONIA or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Period if the Specified Currency is neither sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Period if the Specified Currency is euro or (iv) the date falling four London Banking Days prior to the Interest Payment Date for the relevant Interest Period (or the date falling four London Banking Days prior to such earlier date, if any, on which the Notes become due and payable) if the Reference Rate specified is SONIA.

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

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

“**ISDA Benchmarks Supplement**” means the Benchmarks Supplement (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms)) published by the International Swaps and Derivatives Association, Inc;

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms), and, if specified in the relevant Final Terms, as supplemented by the ISDA Benchmarks Supplement.

“**Margin**” means the rate per annum (expressed as a percentage) specified as such in the relevant Final Terms.

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

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

**“Original Reference Rate”** means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

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

**“Principal Amount Outstanding”** means in relation to a Note or Tranche, the original face value thereof less any repayment of principal made to the Noteholders in respect of such Note or Tranche, as adjusted for indexation in accordance with Condition 6 (*Index Linked Notes*) (if applicable).

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

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

**“Reference Rate”** means LIBOR, EURIBOR, LIBID, LIMEAN or SONIA, as may be specified in the applicable Final Terms.

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

**“Relevant Nominating Body”** means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

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

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

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

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

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

**“Successor Rate”** means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

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

## 6 Index Linked Notes

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

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

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

**“Index”** or **“Index Figure”** means, subject to Condition 6(c)(i) (*Change in base*), (i) if RPI is specified in the applicable Final Terms, the UK Retail Price Index (RPI) (for all items) published by the Office for National Statistics (January 1987 = 100) or any comparable index which may replace the UK Retail Price Index for the purpose of calculating the amount payable on repayment of the Reference Gilt (**“RPI”**); (ii) if CPI is specified in the applicable Final Terms, the UK Consumer Prices Index published by the Office for National Statistics (January 2015 = 100) or any comparable index which may replace the UK Consumer Prices Index for the purpose of calculating the amount payable on repayment of the Reference Gilt (**“CPI”**); or (iii) if CPIH is specified in the relevant Financial Terms, the UK Consumer Prices Index including Owner Occupiers’ Housing costs and Council Tax published by the Office for National Statistics (January 2015 = 100) or any comparable index which may replace the UK Consumer Prices Index including Owner Occupiers’ Housing costs and Council Tax for the purpose of calculating the amount payable on repayment of the Reference Gilt (**“CPIH”**). Any reference to the Index Figure which is specified in the applicable Final Terms as:

- (i) applicable to a particular month, shall, subject to Conditions 6(c) (*Changes in Circumstances Affecting the Index*) and 6(e) (*Cessation of or Fundamental Changes to the Index*), be construed

as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication; or

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

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

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

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

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

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

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

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

- (b) *Application of the Index Ratio:* Each payment of interest and principal in respect of Notes shall be the amount provided in, or determined in accordance with, these Terms and Conditions, multiplied by the Index Ratio or Limited Index Ratio in the case of Limited Index Linked Notes applicable to the month or date, as the case may be, in which such payment falls to be made and rounded in accordance with

Condition 5(g) (*Maximum/Minimum Rates of Interest, Maximum/Minimum Redemption Amounts and Rounding*).

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

(i) *Change in base:* If at any time and from time to time the Index is changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of “**Index**” and “**Index Figure**” in Condition 6(a) (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 or January 2015, as applicable (or, as the case may be, to such other date or month as may have been substituted therefor); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

(ii) *Delay in publication of Index if sub-paragraph (i) of the definition of Index Figure is applicable:* If the Index Figure which is normally published in the seventh month and which relates to the eighth month (the “**relevant month**”) before the month in which a payment is due to be made is not published on or before the fourteenth Business Day before the date on which such payment is due (the “**date for payment**”), the Index Figure applicable to the month in which the date for payment falls shall be (1) such substitute index figure (if any) as the Trustee considers to have been published by the Bank of England for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked treasury stock selected by an Indexation Adviser (and approved by the Trustee); or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 6(c)(i) (*Change in base*)) before the date for payment.

(iii) *Delay in publication of Index if sub-paragraph (ii) and/or (iii) of the definition of Index Figure is applicable:* If the Index Figure relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Figure for any date is not published on or before the fourteenth business day before the date on which such payment is due (the “**date for payment**”), the Index Figure applicable for the relevant calculation month shall be (1) such substitute index figure (if any) as the Trustee considers to have been published by the United Kingdom Debt Management Office or the Bank of England, as the case may be, for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked treasury stock selected by an Indexation Adviser (and approved by the Trustee) or (2) if no such determination is made by such Indexation Adviser within 7 days, the Index Figure last published (or, if later, the substitute index figure last determined pursuant to Condition 6(c)(i) (*Change in base*)) before the date for payment.

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

(i) in relation to a payment of principal or interest in respect of such Note other than upon final redemption of such Note, the principal or interest (as the case may be) next payable after the date of such subsequent publication shall be increased or reduced by an amount equal to (respectively) the shortfall or excess of the amount of the relevant payment made on the basis of the Index Figure applicable by virtue of Condition 6(c)(ii)(2), below or above the amount of the relevant

payment that would have been due if the Index Figure subsequently published had been published on or before the fourteenth Business Day before the date for payment; and

- (ii) in relation to a payment of principal or interest upon final redemption, no subsequent adjustment to amounts paid will be made.

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

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

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

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



(b) *Early Redemption*

(i) *Zero Coupon Notes:*

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

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

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

(c) *Redemption for Taxation Reasons*

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

provided further that the Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders.

If the Issuer is unable to arrange a substitution as described above and, as a result the requirement to deduct or withhold Tax as described in Condition 9 (*Taxation*) is continuing, the Issuer may on any Interest Payment Date or, if so specified on the Note or in the case of any Zero Coupon Note, at any time, redeem Notes of the relevant Series in whole but not in part (i) upon not more than 60 nor fewer than 30 days' prior notice or (ii) upon such shorter notice as is practicable if the notice described in (i) would expire after the next date on which a payment is due on the Notes, each such notice given in accordance with Condition 16 (*Notices*) below (which notice shall be irrevocable), at their Principal Amount Outstanding together with, unless otherwise specified, any interest accrued up to (but excluding) the date set for redemption, provided, however, that (i) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due and (ii) at the time such notice of redemption is given, such obligation to pay such additional amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and that the Issuer will have sufficient funds available for making such redemption and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to make such deduction or withholding, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

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

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

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

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

For the purposes of these Conditions, "**Issuer Maturity Call Period**" has the meaning given to it in the applicable Final Terms.

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

If the term "Issuer Call" is specified in the applicable Final Terms, the Issuer may, on giving not fewer than 15 nor more than 30 days' irrevocable notice to the Trustee and the Noteholders (or such other notice period as may be specified in the applicable Final Terms) redeem, or exercise any Issuer's option (as may be described in the applicable Final Terms) in relation to, all or, if so provided, some Notes on any Interest Payment Date or any other Optional Redemption Date specified in the applicable Final Terms, as the case may be, provided that (i) if the term "Issuer Maturity Call" is also specified to be

applicable in the applicable Final Terms, such redemption date falls prior to the start of the Issuer Maturity Call Period and (ii) provided always that no Event of Default has occurred and is continuing at the time of such redemption or would occur by reason of such redemption. Any such redemption of Notes shall be at their Optional Redemption Amount as follows:

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

plus interest accrued but unpaid on the Principal Amount Outstanding to (but excluding) the date fixed for redemption.

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

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

plus interest (as adjusted in accordance with Condition 6(b) (*Applications of the Index Ratio*)) accrued but unpaid on the Principal Amount Outstanding to (but excluding) the date fixed for redemption.

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

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

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

(f) *Redemption for Index Reasons*

In the case of Index Linked Notes only, if either (i) the Index Figure (as defined in Condition 6 (*Index Linked Notes*)) for three consecutive months fails to be determined on the basis of an Index Figure previously published as provided in Condition 6 (*Index Linked Notes*) and the Trustee and the Issuer have been notified by the Calculation Agent that publication of the Index (as defined in Condition 6 (*Index Linked Notes*)) has ceased or (ii) notice is published by Her Majesty’s Treasury or the Office for National Statistics, or on its or their behalf, following a change in relation to the Index (as defined in Condition 6 (*Index Linked Notes*)), offering a right of redemption to holders of all sterling obligations of the United Kingdom Government listed on the Official List and traded on the London Stock Exchange, linked to the Index (“**Index Linked Gilts**”), and (in either case) no amendment or substitution of the Index shall have become effective pursuant to Condition 6(e)(iii) and such circumstances are continuing, the Issuer shall, having given not more than 60 nor fewer than 30 days’ notice to holders of the Index Linked Notes in accordance with Condition 16 (*Notices*) redeem all, but not some only, of the Index Linked Notes at their Principal Amount Outstanding together with accrued interest up to but excluding the date of redemption (all adjusted for indexation as provided in Condition 6 (*Index Linked Notes*)), the Index Ratio for this purpose being that applicable to the month in which redemption takes place.

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

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

(i) *Issuer Residual Call Option*

If “Issuer Residual Call” is specified as being applicable in the applicable Final Terms and, at any time, the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if such Note is not a Floating Rate Note) or on any Interest Payment Date (if such Note is a Floating Rate Note), on giving not less than 30 and not more than 60 days’ notice to the Trustee and, in accordance with Condition 16, the Noteholders (which notice shall be irrevocable) at the Optional Redemption Amount specified for such purpose together, if appropriate, with interest accrued to the date fixed for redemption.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 7(i).

Neither the Trustee nor any Paying Agent will be responsible for monitoring whether the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued or for ensuring that the outstanding aggregate nominal amount of the Notes is 20 per cent. or less of the aggregate nominal amount of the Series issued when the Issuer Residual Call Option is exercised.

## 8 Payments

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

(b) *Registered Notes*

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

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

Record Date, such payment of interest may be made by transfer to an account in the relevant currency, maintained by the payee with a Bank.

- (c) *Payments in the United States:* Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) *Payments Subject to Fiscal Laws:* Save as provided in Condition 9 (*Taxation*) all payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable thereto in the place of payment; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Appointment of Agents:* The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent (where the Calculation Agent is the Principal Paying Agent) initially appointed by the Issuer and their respective specified offices are listed below. The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agent and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar, the Transfer Agent or the Calculation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that each Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Terms and Conditions so require, (v) a Paying Agent having specified offices in a major European city (which may include the Principal Paying Agent) and (vi) such other agents as may be required by the rules of any stock exchange on which Notes may be listed.

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

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

- (f) *Unmatured Coupons and unexchanged Talons*
  - (i) Unless Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such

missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10 (*Prescription*)).

- (ii) If Notes so provide, upon the due date for redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
  - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
  - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
  - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) *Talons*: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10 (*Prescription*)).
- (h) *Non-Business Days*: If any date for payment in respect of any Note or Coupon is not a Business Day, the holder shall not be entitled to payment until the next following Business Day nor to any interest or other sum in respect of such postponed payment.

## 9 Taxation

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

- (a) presented for payment by or on behalf of a holder who is subject to such Tax in respect of such Note or Coupon by reason of his being connected with the United Kingdom (or any political subdivision thereof) otherwise than merely by holding such Note or Coupon; or
- (b) presented for payment by or on behalf of a holder who would not be liable for or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to such additional payment on presenting the same for payment on the last day of such 30 day period.

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

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

## 10 Prescription

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

## 11 Events of Default

- (a) *Events of Default:* Each of the following events shall constitute an “**Event of Default**” in relation to any Tranche of Notes issued by the Issuer:
- (i) there is default in the payment of any principal on the due date therefor or a default for a period of 5 days or more in the payment of interest due in respect of the Notes pursuant to Condition 5 (*Interest and other Calculations*);
  - (ii) there is default in the performance or observance by the Issuer of any other obligation or provision under the Notes or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Notes) which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, which is not remedied within 60 days after notice of such default shall have been given to the Issuer by the Trustee;
  - (iii) if (A) any Financial Indebtedness (as defined in Condition 12 (*Covenants*)) or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions of the Issuer or any Relevant Subsidiary of the Issuer becomes due and payable prior to its stated maturity by reason of any actual event of default, or (B) any amount in respect of such Financial Indebtedness or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions is not paid when due or, as the case may be, within any applicable grace period, provided that the aggregate amount of the relevant Financial Indebtedness or financial indebtedness in respect of Working Capital Facilities or termination payments under derivative transactions in respect of which one or more of the events mentioned



above in this paragraph (iii) have occurred equals or exceeds £50,000,000 with respect to the Issuer;

- (iv) the ratio of Net Financial Indebtedness to Adjusted Regulated Asset Value (each as defined in Condition 12 (*Covenants*)) of the Issuer exceeds 0.95:1;
- (v) the Issuer ceases to carry on all or substantially all of its business or is unable to pay its debts within the meaning of Section 123(1)(e) or Section 123(2) of the Insolvency Act 1986;
- (vi) the Issuer is adjudged bankrupt or insolvent by a court of competent jurisdiction in its country of incorporation;
- (vii) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved by an Extraordinary Resolution of holders of the relevant Tranche of Notes;
- (viii) a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or substantially all of its undertaking or assets or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or substantially all of its assets and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may permit);
- (ix) an application is made in respect of the Issuer under Section 156 of the Energy Act 2004 and is not dismissed within 60 days or an energy administration order is made in respect of the Issuer by a court under Chapter 3 of Part 3 of the Energy Act 2004; or
- (x) a Restructuring Event (as defined in Condition 11(d) (*Definitions*)) occurs in respect of the Issuer and: (A) a Rating Downgrade (as defined in Condition 11(d) (*Definitions*)) in respect of such Restructuring Event occurs and (B) an Independent Financial Adviser (as defined in Condition 11(d) (*Definitions*)) shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of Noteholders (a “**Negative Certification**”),

provided that:

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

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

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

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

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

- (b) *Consequences of Event of Default:* If any Event of Default occurs in relation to any Tranche of Notes and is continuing, then the Trustee (A) at its discretion may, and (B) if so requested by the holders of at least one-quarter in nominal amount of the relevant Tranche of Notes then Outstanding or if so directed by an Extraordinary Resolution of the holders of the relevant Tranche of Notes shall (in either case subject to being indemnified and/or secured to its satisfaction), give notice to the Issuer at its registered office that the relevant Tranche of Notes issued by the Issuer is, and it shall accordingly immediately become, due and repayable at the relevant Early Redemption Amount together with accrued interest (if any) to the date of payment, without further action or formality.
- (c) *Enforcement:* If an Event of Default has occurred in relation to the Notes of any Tranche and is continuing and if the Trustee has given notice to the Issuer in accordance with Condition 11(b) (*Consequences of Event of Default*), then the Trustee (A) at its discretion may, and (B) if so requested by the holders of at least one-quarter in nominal amount of the relevant Tranche of Notes then Outstanding or if so directed by an Extraordinary Resolution of the holders of the relevant Tranche of Notes shall (in either case subject to being indemnified and/or secured to its satisfaction), institute such proceedings against the Issuer as it may think fit or, as the case may be, as it may be required or directed to institute to enforce any obligation, condition or provision binding on the Issuer under the relevant Notes or under the Trust Deed.

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

- (d) *Definitions:*

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

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

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

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

“**Relevant Subsidiary**” means a subsidiary within the meaning of section 1159 of the Companies Act 2006 whose assets are included in the calculation of Adjusted Regulated Asset Value.

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

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

## 12 Covenants

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

- (a) it will not change the nature of its business if such change in business is not in compliance with its obligations under its GT Licence;

- (b) it will operate its business in accordance with its GT Licence and it will not transfer its GT Licence;
- (c) it will provide to the Trustee within 150 days of 31 March and within 90 days of 30 September in each year a certificate signed by two directors of the Issuer stating its Regulated Asset Ratio;
- (d) it will not, directly or indirectly, make any Distribution unless (i) the certificate referred to in paragraph (c) above confirms that the Regulated Asset Ratio is not greater than 0.775:1 and (ii) the Regulated Asset Ratio following the payment of such Distribution would not be greater than 0.775:1 (and will not put in place alternative arrangements, the purpose of which is intended to circumvent any such limitation on the limitation on the payment of Distributions);
- (e) it will not incur further Financial Indebtedness if the Regulated Asset Ratio would be greater than 0.775:1 (adjusted on a *pro forma* basis to take account of the proposed incurrence of such further Financial Indebtedness);
- (f) it will comply with a hedging policy containing the following provisions (as more particularly described in the Trust Deed):
  - (i) all non-sterling interest bearing debt will be fully hedged into sterling (or the then currency of the United Kingdom of Great Britain and Northern Ireland); and
  - (ii) a minimum of 70 per cent. of its debt will be (A) fixed rate, (B) index-linked or (C) hedged so that the interest exposure of the Issuer is either fixed rate or index-linked;
- (g) it will give notice to the Trustee of (i) late payment under the Notes; (ii) the occurrence of a Restructuring Event; (iii) the occurrence of a Rating Downgrade; and (iv) the occurrence of an Event of Default; and
- (h) it will use its reasonable endeavours to maintain an investment grade rating in respect of its long-term unsecured, unguaranteed and unsubordinated debt obligations.

For the purpose of these Terms and Conditions:

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

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

“**Associate**” means:

- (a) any person who has a Controlling Interest in any member of the SGN Group; or
- (b) any person who is Controlled by a member of the SGN Group,

and in each case, any Affiliate of such person.

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

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

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

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

but excluding:

- (i) any present or future, actual or contingent liability arising in connection with any derivative or hedging transaction (including any termination payment due or mark-to-market position under any such transaction); or
- (ii) any notes, bonds, debentures, debenture stock, loan stock or other indebtedness held by its shareholder or the shareholders of SGN.

**“Holding Company”** has the meaning given to such term in section 1159 of the Companies Act 2006.

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

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

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

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

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

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

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

“**Subsidiary**” means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

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

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

### 13 Meetings of Noteholders and Modifications

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

Issuer upon the request in writing of Noteholders holding not less than one-tenth in nominal amount of the relevant Notes for the time being Outstanding.

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

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

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

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

an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*

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

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

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

(c) *Waiver of breach and determination*

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

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

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

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

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

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

(d) *Benchmark Amendment*

The Trustee shall from time to time, without the consent of the Noteholders, the Couponholders or the Talonholders be obliged to concur with the Issuer in effecting any Benchmark Amendments subject to the terms set out in Condition 5(1)(iv) (*Benchmark Amendments*). Any such modification shall be binding on the Trustee, the Issuer, the Noteholders, the Couponholders and the Talonholders.



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

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

#### **15 Further Issues**

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

#### **16 Notices**

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

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

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

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

published in accordance with requirements of the stock exchange or other relevant authority. Such notices shall be deemed to have been received by the Noteholders on the day of delivery to such clearing systems.

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

## **17 Currency Indemnity**

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

## **18 Governing Law and Jurisdiction**

- (a) *Governing Law:* The Trust Deed, Notes, Coupons, Talons (if any) and the other Transaction Documents and any non-contractual obligations arising out of or in connection with the Trust Deed, Notes, Coupons, Talons (if any) and the other Transaction Documents are governed by, and shall be construed in accordance with English law.
- (b) *Jurisdiction:* Each of the Issuers irrevocably agrees that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, any Notes, Coupons or Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, Notes, Coupons or Talons (if any) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, any Notes, Coupons or Talons ("**Proceedings**") may be brought in such courts. Each of the Issuers irrevocably submits to the exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts, on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the holders of Notes, Coupons and Talons and shall not affect the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).
- (c) *Appointment of process agent:* Scotland Gas Networks plc hereby appoints Scotia Gas Networks Limited, whose registered office is at St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ to accept service of any Proceedings in the English courts on its behalf and in the event of its ceasing so to act will appoint such other person as the Trustee may approve and as Scotland Gas Networks plc may nominate in writing to the Trustee for the purpose of accepting service of process on its behalf in England. Nothing in these Terms and Conditions shall affect the right to serve process in any other manner permitted by law.

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

## **SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILST IN GLOBAL FORM**

### **Initial Issue of Notes**

If the Global Notes or Global Certificates are stated in the applicable Final Terms to be issued in NGN form or to be held in the NSS as applicable:

- (i) they will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper; and
- (ii) the relevant clearing systems will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility.

Depositing the Global Notes or Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

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

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

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

### **Relationship of Accountholders with Clearing Systems**

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

## **Exchange**

### ***Temporary Global Notes***

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

- (i) if the applicable Final Terms indicate that such Global Note is issued in a transaction to which TEFRA is not applicable (as to which, see “*Summary of the Programme-Selling Restrictions*”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the applicable Final Terms, for Definitive Notes

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

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

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

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

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

### ***Exchange Date***

“*Exchange Date*” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not fewer than 60 days, or in the case of failure to pay principal in respect of any Notes when due 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

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

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

#### ***Payments***

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the TEFRA D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima-facie evidence that such payment has been made in respect of the Notes. If the Global Note is an NGN, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the Issuer’s obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

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

#### ***Cancellation***

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

#### ***Purchase***

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

#### ***Issuer’s Option***

Any option of the relevant Issuer provided for in the Terms and Conditions of any Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the relevant Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Terms and Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn

in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

*NGN nominal amount*

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

## **USE OF PROCEEDS**

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



## BUSINESS DESCRIPTION

### DESCRIPTION OF THE ISSUERS

Southern GN was incorporated in England and Wales on 30 June 2004 as Blackwater G Limited under the Companies Act 1985 with the registration number 5167021 (LEI: 549300SPX8573VZ2SK79) as a private company with limited liability. It changed its name to Southern Gas Networks Limited on 1 June 2005 and converted to a public limited company on 28 September 2005. The website of Southern GN is <https://www.sgn.co.uk> but information on the website does not form part of this Prospectus unless it has been explicitly incorporated by reference into this Prospectus.

Scotland GN was incorporated in Scotland on 26 February 2004 as Blackwater SC A Limited under the Companies Act 1985 with the registration number SC264065 (LEI: 549300Y7M5CC1U5DBX07) as a private company with limited liability. It changed its name to Scotland Gas Networks Limited on 1 June 2005 and converted to a public limited company on 29 September 2005. The website of Scotland GN is <https://www.sgn.co.uk> but information on the website does not form part of this Prospectus unless it has been explicitly incorporated by reference into this Prospectus.

#### *Business Description*

The principal activities of the Issuers are the transportation of gas and the ownership, operation and development of the gas distribution network in their respective areas of operation. The Issuers manage the networks that distribute gas to regions that include some of the most densely populated and most remote parts of the country. These are, respectively, the London Boroughs of Lambeth and Southwark, which are among the top ten most densely populated local authorities in England and Wales, and Scotland's Western Isles.

Southern GN operates the regulated gas transportation business and provides metering services for the South and South East of England gas distribution network, one of eight regional gas distribution networks in Great Britain. Its gas distribution network comprises approximately 49,000 kilometres of gas mains delivering natural gas to approximately 4.1 million domestic, commercial and industrial customers. The network stretches from Milton Keynes in the north, to Dover in the east and Lyme Regis in the west, including London boroughs to the south of the River Thames.

Scotland GN operates the regulated gas transportation business and metering services for the Scotland gas distribution network, one of eight regional gas distribution networks in Great Britain. Scotland GN's gas distribution network comprises approximately 24,000 kilometres of gas mains delivering natural gas to approximately 1.8 million domestic, commercial and industrial customers. The network distributes gas in all of Scotland to 75 per cent. of households, including remote areas through the Scottish independent undertakings at Stornoway, Wick, Thurso, Oban and Campbeltown.

#### *Industry Overview*

The UK is the largest gas market in Western Europe. The current gas industry structure resulted from the privatisation of British Gas in 1986 and its subsequent restructuring into competitive production and supply businesses and a regulated gas transportation business. The gas distribution business was separated out from British Gas and named Transco in 1997 and then sold by British Gas in 2000. The gas distribution network at that point was divided into eight regions. In 2002, Transco merged with NGG (renamed National Grid Transco) which operates the national gas transmission system and the electricity transmission system. Scotia Gas Networks was established when National Grid Transco sold off two (in Scotland and the South of England) of its eight gas distribution networks in 2005. Scotia Gas Networks operated as Scotland Gas Networks and Southern Gas Networks before they were jointly rebranded SGN in 2014.

The gas transportation system in Great Britain (England, Scotland and Wales) comprises the NTS (operated by NGG), which consists of approximately 4,760 miles of high pressure pipelines and 24 compressor stations, connecting to eight lower pressure regional distribution networks (“**distribution networks**”) and third party independent systems for onward transportation of gas to final customers. The NTS receives gas from Britain’s seven coastal terminals, two small onshore fields and two major LNG importation terminals. It is connected to Europe via interconnectors and pipelines owned by third parties; for example, the Bacton/Zeebrugge interconnector connects the NTS with continental Europe, allowing both the import and export of gas.

### *Gas Transportation*

Each Issuer receives gas from the NTS from “**Offtakes**”, which are exit points at which gas flows from the NTS into a distribution network. The Issuers currently have 30 offtake installations. The gas is then transported to approximately 5.9 million (4.1 million in the case of Southern GN, and 1.8 million in the case of Scotland GN) supply points via pipelines, mains and service pipes. The Issuers have approximately 3,100 kilometres of high pressure transmission pipelines and approximately 73,000 kilometres of distribution mains. The Offtakes contain instrumentation and telemetry equipment to enable remote monitoring and control of the gas flows. Each Issuer generally owns the Offtake sites in its geographic area of operation and the majority of the associated equipment, including equipment for filtration, pressure management, measurement and odourisation of gas. The Issuers are responsible for the control of gas flow at the Offtakes in their respective areas.

From each Offtake, gas enters a high pressure (“**HP**”) transmission system which consists of a network of steel pipes. The HP transmission system operates in a way that enables the pressure to be increased at times of low demand and reduced at times of high demand to enable gas storage in the system. 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 with a low pressure LP (“**LP**”) service pipe connecting each consumer’s premises. The assets of the Issuers encompass the complete pipe network in their respective areas of operation from the Offtakes to the emergency control valve, which is located at the end of the service pipe and immediately before the gas meter at the consumer’s premises.

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

An increasing amount of gas is now being injected directly into the distribution networks by biomethane plants. Biomethane is a green gas created by the breakdown of organic material by anaerobic digestion. There are currently 35 of these plants connected to the Issuer's networks supplying enough green gas to meet the needs of over 190,000 homes.

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

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

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

Each Issuer is also responsible for the construction, replacement and maintenance of network assets in its network. This means that each Issuer designs, plans and executes major projects, including non-engineering projects. The Issuers deploy and update a major projects governance framework which is designed to ensure projects are governed, developed, approved and executed in an effective manner. Each Issuer also adopts a number of assets that have been constructed by Utility Infrastructure Providers.

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

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

Further, the Issuers are listed under the utilities fuel scheme as part of the national emergency fuel plan.

#### *Information Systems and Networks*

As noted above, the Issuers’ operations, including the efficient management and accurate billing of customers, effective asset operations, and successful treasury activities rely on sensitive and highly complex information systems and networks, including systems and networks provided by and interconnected with those of third-party providers. The Issuers also rely on third-party hardware, software and service providers for certain systems and networks, which are not entirely under the Issuers’ control. The Issuers have a managed information security programme across their respective operations and conduct regular internal and external penetration and vulnerability testing across their respective systems and networks. As part of their price control submissions to the regulators for the RIIO-GD2 price control period, the Issuers plan to propose a five-year sustained investment programme in cyber and analytics capabilities (including artificial intelligence capabilities).

#### *Workforce Development and Training*

The Issuers maintain a strong focus on developing and maintaining the competence of their workforce, ensuring any lessons learnt from incidents are implemented across their business. The Issuers have a “Manager Essentials” programme for their line managers and deliver apprenticeships in management, cyber security and for various craft roles and were one of the first companies to have apprentices successfully complete the new Gas Network Team Leader apprenticeship standard. Their Talent and Development team maintains its accreditation with the Learning and Performance Institute and has a close association with a valuable organisation called Energy & Utility Skills.

In addition, the Issuers’ development programmes which lead to a professional engineering registration have been re-accredited by the Institution of Gas Engineers & Managers and also by the Institute of Engineering & Technology. The Issuers continue to actively engage with influential industry panels, including providing the Chair to the Gas Network Skills Forum and the Gas Assurance Panel, both of which are part of the Energy & Utilities Independent Assessment Service.

### *Service Agreements with SSE*

Each Issuer has entered into a managed services agreement with SSE under which SSE provides certain corporate services.

## **REGULATORY FRAMEWORK**

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

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

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

### *The GT Licences*

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

### *Key Aspects of the GT Licences*

Under each GT Licence, each Issuer is required to:

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

Under each GT Licence, each Issuer is restricted from:

- making distributions to affiliates or related undertakings in certain credit rating downgrade scenarios;
- conducting any business other than (i) transportation business; (ii) metering or meter reading business; and (iii) a de minimis amount of non-transportation business;
- disposing of, or relinquishing operational control over, any transportation assets without consent of the regulator;
- creating any security or other form of encumbrance or undertaking any indebtedness or entering into any guarantee or any obligation otherwise than (i) on an arm's length basis; (ii) on normal commercial terms; and (iii) for a permitted purpose;
- transferring, leasing, licensing or lending any sum, asset, right or benefit to any affiliate or related undertaking other than in accordance with the terms of its GT Licence;
- entering into any agreement or incurring any commitment incorporating a cross-default obligation; and
- giving cross-subsidies to, or receiving cross subsidies from, any affiliates or related undertaking.

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

### ***Enforcement***

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

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

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

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

Unless terminated in the circumstances mentioned above, the GT Licences continue indefinitely until revoked by the Authority following no fewer than 10 years' written notice. Each Issuer is confident that it has in place policies, systems and processes to ensure compliance with the GT Licences and relevant legislation. Furthermore, each Issuer is not currently subject to any formal investigation by the Authority in relation to enforcement matters.

### ***Financeability***

GEMA is subject to a principal objective to protect the interests of existing and future customers. Ofgem must carry out its functions in a manner which it considers is best calculated to further the principal objective and must have regard to various matters including the need to ensure licence holders are able to finance their

licenced activities. Whilst GEMA's financing duty is not an absolute duty, in setting price controls, the Regulator should have regard to the ability of efficient companies to secure financing in a timely way and at a reasonable cost in order to facilitate the delivery of their regulatory obligations. GEMA has historically interpreted these duties by setting a price control at a level which would allow an efficient company to finance its licenced activities, by reference to a standalone notional financial structure.

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

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

This regime applies in similar circumstances to other forms of insolvency such as administration, liquidation or administrative receivership and the court may only make a special administration order if either of the Issuers are unable, or likely to be unable, to pay their debts or if it would be just and equitable to wind up the affected Issuer on the grounds of public interest.

An energy administrator has a different objective to other insolvency practitioners. His objective would be to ensure that the relevant Issuer's system is and is continued to be maintained and developed as an efficient and economical system and that the order can be discharged by rescuing the relevant Issuer as a going concern or where this is not achievable, transferring its business and assets (in whole or in part) to another company under a statutory scheme. The energy administrator must exercise and perform their powers and duties in the manner which, so far as it is consistent with the objectives of energy administration to do so, best protects the interests of the creditors of the relevant Issuer as a whole and subject to those interests, the interests of the members of the relevant Issuer as a whole.

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

The Issuers are party to the Uniform Network Code ("**UNC**") along with the other DNs, National Grid Transmission ("**NTS**"), iGTs and shippers. The UNC determines transportation arrangements between the parties, some functions of which are facilitated by Xoserve Limited ("**Xoserve**"), such as supply point administration services. Since 1 April 2017, new Funding, Governance and Ownership arrangements have been in place with Xoserve, who act as the Central Data Service Provider ("**CDSP**") for all the parties, and as such is funded and governed by all parties, but is owned jointly by the Issuers, the other DNs and NTS.

## **PRICE CONTROL**

Price controls are set by the Authority taking into account submissions made by the Issuers, including their proposed business plans. As noted above, the GD1 Control commenced on 1 April 2013 and runs to 31 March 2021 (such regulatory period being "**RIIO-GD1**"). The GD2 Control, meanwhile, will run from 1 April 2021 to 31 March 2026 (such regulatory period being "**RIIO-GD2**"). "**RIIO**" means the following: Revenue equals Incentives plus Innovation plus Outputs. "**GD1**" and "**GD2**" mean Gas Distribution 1 and Gas Distribution 2 respectively.

### ***Allowed Revenue***

Under the RIIO regime, the Issuers' annual regulated revenue is currently derived from the following principal "building blocks":

- a return on each Issuer's RAV which is calculated as the regulatory weighted average cost of capital ("WACC") multiplied by the estimated average RAV for the year. For RIIO-GD1, all distribution networks (including the Issuers) are allowed to earn an annual real return on RAV which, at April 2019, is forecast to average 3.76 per cent. for the period based on the relevant prevailing indexed cost of debt (pre-tax) and an *ex ante* cost of equity (post-tax);
- an allowance for the set proportion of total operating costs ("totex") deemed to be operating expenditure, classified as "fast money" expenditure;
- a symmetrical reward or penalty for actual performance achieved by the Issuer in accordance with licence incentive mechanisms. A number of incentive mechanisms exist in relation to RIIO-GD1, including mechanisms regarding leakage and customer service;
- the Issuers' prescribed rates, NTS Exit capacity costs, shrinkage costs plus Issuers' GT Licence fees and other pass through costs;
- an over/under recovery adjustment due to higher/lower customer numbers, capacity and volumes than assumed in the tariffs (which are based on the forecast);
- regulatory depreciation, tax allowance and pension funding costs; and
- adjustments to revenue through an annual iteration process which includes:
  - a re-determination mechanism for a number of predefined events that were uncertain when allowances were set. For RIIO-GD1, these include re-openers (e.g. enhanced site security, Xoserve funding, street works and smart metering) and other revenue adjustments (e.g. for tax legislation, fuel poor connections and tier 2 mains replacement);
  - changes to pass through costs and pension allowances;
  - adjustment to the WACC due to an updated cost of debt index; and
  - an adjustment for the relative under/over performance of actual totex relative to allowances. For RIIO-GD1, this is done using a sharing factor of 63.7 per cent. pre-determined at final proposals. Adjustments for actual totex are made two years after costs are incurred, or after 45 years, depending on whether the actual costs are fast or slow.

For the purposes of the GD1 Control, cost of equity and gearing have been fixed for the eight year duration of the control at 6.7 per cent. (post tax real) and 65 per cent. respectively. However, the return will vary each year due to the arrangements for funding the cost of debt which will be based on the iBoxx ten year trailing average each year. This element is funded on a pre-tax real basis which for 2019/20 is 1.58 per cent. This gives an overall "vanilla" WACC of 3.4 per cent. for 2019/20 but as described above, this may be subject to cost of debt fluctuations during the eight year period. The figures described in "Allowed Revenue" above are adjusted for RPI in the UK, as determined by the Office for National Statistics (a UK government agency responsible for deriving national statistics).

In November 2017, following a review of its performance under the GD1 Control, SGN announced that it had identified approximately £145 million of forecast regulatory allowances, for a range of projects and programmes across its Scotland and Southern gas networks, which will no longer be required. As such, SGN informed Ofgem that, as a voluntary contribution, it would not be claiming these allowances, which had

previously been agreed under the price control. The £145 million voluntary contribution included unclaimed re-openers for street works and smart metering costs, additional fuel poor and site security work and return of some replacement expenditure allowances. This voluntary contribution will see approximately £84 million returned to consumers and £61 million invested in smart metering, street works and site security works.

For further disclosure regarding the GD2 Control, please see pages 89 to 90 (inclusive).

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

Both Issuers were allocated a RAV associated with their respective distribution assets prior to a network sale in 2005 as determined by the Authority. To determine allowed revenue for the GD1 Control, a RAV was established by the Authority which is rolled forward based on regulatory depreciation and the annual capitalisation rate applicable to the respective replacement, operational and capital expenditure categories.

The RAV will be retrospectively updated annually based on actual totex expenditure and the Issuers understand Ofgem will publish this periodically. At 31 March 2019 the RAV of Southern GN was estimated to be £3,943 million, and the RAV of Scotland GN was estimated to be £1,775 million.

### ***Demand Forecasting***

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

### ***Collected Revenues***

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

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

Revenues for some services are not regulated by the price control formula and this is allowed under the GT Licence. Some services, such as metering, are deemed to be within the definition of "permitted purpose" in the GT Licence or the Authority has otherwise consented to such activities, while other activities are non-consented and are covered by standard condition 43 in the GT Licences. This restricts turnover from non-consented activities, e.g. maintenance of an interconnector, to a maximum of 2.5 per cent. of each Issuer's turnover.

### ***Updates regarding RIIO-GD1***

A number of updates from the previous price controls (which applied prior to RIIO-GD1) have been addressed in the GD1 Control. These are as follows:

- widening the scope of benchmarking in setting allowances and rewarding frontier performance;
- dealing with all controllable over-spends and under-spends through the introduction of a strong Totex Incentive Mechanism, which ensures that a third of outperformance is shared with customers and a third of underperformance is recovered;
- matching outputs required under the licence with benchmarked allowed expenditure;
- removing certain annual output targets and replacing with year eight objectives;



- continuation of previous decisions to base almost all allowed revenue on capacity and not throughput;
- continuation of price control pension principles;
- pass through of shrinkage gas and NTS Exit prices;
- introduction and continuation of several incentives;
  - leakage levels;
  - innovation funding;
  - customer service performance;
  - discretionary rewards for sustainable development;
  - exit capacity performances;
- dealing with uncertain costs via price control reopeners and revenue adjustments;
  - Traffic Management Act costs;
  - connection of new large loads;
  - Smart metering programme roll out;
  - changes to tax rules;
  - site security costs; and
- moving from a five year to an eight year control period.

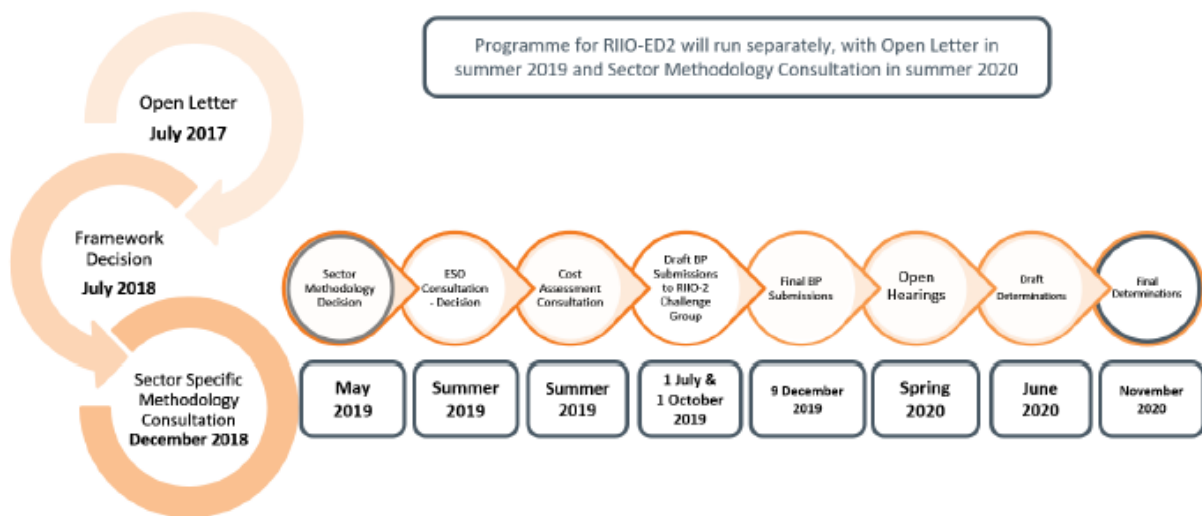
On the whole, the Issuers believe that these changes have provided a much higher degree of regulatory transparency.

***Progress in relation to RIIO - GD2***

In July 2017, Ofgem published a letter entitled “*Open letter on the RIIO-2 Framework*” which marked the beginning of the process to develop new price controls to be put in place following the end of RIIO-GD1 in 2021. The letter set out the context and high level aims for RIIO-2 and invited views from stakeholders. In March 2018, Ofgem issued a consultation on the proposed overarching RIIO-2 framework and followed this with its RIIO-2 framework decision in July 2018.

In December 2018, Ofgem issued a consultation on the methodology it proposed to apply in each of the sectors with price controls starting in 2021 and in May 2019 it published its “*RIIO-2 Sector Specific Methodology Decision*”.

Further, in May 2019 Ofgem published a high-level time line for the development of the GD2 Control reviews, as shown on page 14 of the “*RIIO-2 Sector Specific Methodology – Core Document*” and extracted below. The timeline is indicative and as Ofgem’s plans evolve may be subject to change.



Changes from the GD1 Control (which is described in further detail on pages 87 to 89 (inclusive)) that are known at this stage in the GD2 Control process, are as follows:

- Ofgem have a current working assumption for the allowed return on equity of 4.3 per cent. (CPIH, real), including a deduction of a 50 basis points working assumption for expected outperformance. The 50 basis points deduction will be reviewed once the price control is calibrated;
- The notional gearing working assumption is 60 per cent.;
- The cost of debt working assumption is a 11-year trailing average tromboning to 15 years by the end of RIIO-GD2. Based on Ofgem’s latest iBoxx forecast – this gives a RIIO-GD2 average cost of debt allowance working assumption of 1.93 per cent. (CPIH, real);
- Ofgem’s overall working assumption for the cost of capital is currently 2.88 per cent. (CPIH, real);
- The working assumption for the retention of the relative under/over performance of actual totex relative to allowances, will be in the range of 15-50 per cent. There will be an additional revenue adjustment mechanism if overall operational returns (RoRE) exceeds a working assumption of cost of equity +/- 3 per cent.;
- RAV and allowed revenue will be indexed by CPIH rather than RPI; and
- Ofgem have confirmed RIIO-GD2 will be a 5-year price control.

## COMPETITION LAW

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

- prevent or prosecute anti-competitive practices in the natural gas sector under the Competition Act 1998;
- declare an agreement to be anti-competitive and thus null and void and can also impose financial penalties of up to 10 per cent. of turnover on infringing undertakings. The Competition Act 1998

prohibits agreements which may prevent, restrict or distort competition within the UK and the abuse of a dominant position in a market in the UK; and

- make a reference to the CMA where there are reasonable grounds for suspecting anti-competitive behaviour but there has been no obvious breach of the prohibitions under the Competition Act 1998. Should the CMA decide that there has been an adverse effect on competition, it has the power to take action to remedy, mitigate or terminate the anti-competitive activity.

The Issuers are also, until such time as the United Kingdom leaves the European Union (see discussion above), subject to European Union Competition Law, primarily enforced by the European Commission.

## **CONNECTIONS**

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

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

## **STANDARDS OF SERVICE**

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

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

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

Under RIIO-GD1 a new Customer Service mechanism was introduced into the GT Licences. This provides an incentive to the licensee to improve customer satisfaction with the services provided under its licence, minimise complaints and manage its response to such, and, increase effective engagement with stakeholders. This is a symmetric mechanism rewarding networks for improved performance and penalising when standards fall.

In May 2019, Ofgem published its “*RIIO-2 Sector Specific Methodology Decision*” where, at chapter 2, it states that Ofgem will be implementing stronger minimum standards of service for RIIO-GD2.

## **METERING AND METER READING SERVICES**

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

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

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

## **HEALTH AND SAFETY REGULATION**

The HSE is responsible for regulating safety matters in the UK, including the operation of gas transportation infrastructure.

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

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

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

The Issuers’ respective safety cases are combined within a single document and management system, although for legal purposes they remain as separate safety cases. The latest version of the combined safety cases accepted by the HSE was in July 2016. A revised version, with no material changes made and which the Issuers expect to be accepted, was submitted to the HSE in July 2019.

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

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

A significant proportion of the Issuers' networks were constructed from cast iron and ductile iron. The HSE and the gas industry have identified that these pipes are at risk of failure and could result in hazardous conditions should a gas escape occur. In 2011, the HSE undertook a review of the programme to replace at risk iron mains and a new 3 tier approach was implemented from April 2013, which places greater emphasis on replacing mains that present the greatest risk (Tier 1). Annual workloads are set to achieve the replacement of all Tier 1 mains by 2032. The Issuers also have a programme in place to refurbish and/or replace Tier 2 and Tier 3 pipes.

### ***Public Reported Gas Escapes***

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

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

## **POLITICAL AND OTHER DEVELOPMENTS**

### ***Future use of gas***

In June 2019, the UK Government accepted the advice of the Committee on Climate Change (“CCC”) and set a target for net zero emissions by 2050. This followed the most recent CCC report titled “Net Zero: The UK’s contribution to stopping global warming” issued in May 2019. The Scottish Government has also accepted the advice and set a target for net-zero emissions by 2045. This follows the CCC which had noted that the Scottish Government had greater opportunities to cut emissions.

The previous targets for the UK and Scotland to cut emissions by 80 per cent. (from 1990 levels) by 2050 were based on limiting global warming to 2 degrees centigrade. The United Nations Paris Agreement and an influential report from the Intergovernmental Panel on Climate change (“IPCC”) led to a 1.5 degrees centigrade temperature rise to now be considered as the threshold for dangerous climate change.

The CCC’s advice to the UK and Scottish Governments is that a ‘net-zero’ emissions target is necessary, feasible and cost effective but only credible if the policy decisions to reduce emissions are strengthened. Heat currently accounts for almost half of the UK’s energy use and a third of emissions. Meeting the net-zero target will require the majority of, if not all, heat to be decarbonised by 2050.

The UK Government is currently working on a re-assessment of the best value option to decarbonise UK heat. It aims to better understand the infrastructure requirements and impacts on customers that the different options, or mix of options, would have. The UK Government is gathering evidence and analysis relating to options such as use of hydrogen through the gas network, electrification of heat and district heating.

In April 2018, the UK Government published a paper titled “The Clean Growth Strategy” which highlighted that low carbon gases (such as hydrogen) in the Issuers’ existing gas grid had the potential to support the scale of change needed to decarbonise heat. It also highlighted the need to establish the costs, benefits and implications of different pathways for the long-term decarbonisation of heat during the current Parliament to lay the groundwork to set up major heat policy decisions in the first half of the next decade.

In November 2018, the CCC published a report titled “Hydrogen in a low-carbon economy” which identified that hydrogen had the potential to make an important contribution to the decarbonisation of gas. The Department of Business, Energy and Industrial Strategy (“BEIS”) responded to this in December 2018 with a report titled “Clean Growth – Transforming Heating” which presented an overview of the evidence currently available and

identified the objective of developing a new roadmap for policy on heat decarbonisation to be published in mid-2020.

In March 2019, the UK government published a written ministerial statement titled “*Spring Statement 2019: Written Ministerial Statement*” in which it set out its intention in the coming months to provide details of a “Future Homes Standard”, to be introduced by 2025, future-proofing new build homes with low carbon heating and world-leading levels of energy efficiency.

In September 2019, the Scottish government published a paper titled “*Protecting Scotland's Future: the Government's Programme for Scotland 2019-2020*” in which it committed to ensure that, from 2024, all new homes must use renewable or low carbon heat.

There is no consensus currently on the direction of travel for heat, but electricity, hydrogen and bioenergy are all viewed to have the potential to make important contributions. The balance between energy sources is not clear, nor are the relative costs. The Issuers are working with the other UK gas networks to evidence the pathway for decarbonisation of the gas networks and will work closely with BEIS as the UK Government develops its thinking on the decarbonisation of heat.

### ***Exit from the European Union***

On 23 June 2016 the United Kingdom voted to leave the European Union in a referendum and on 29 March 2017 the United Kingdom gave formal notice (the “**Article 50 Notice**”) under Article 50 of the Treaty on European Union (“**Article 50**”) of its intention to leave the European Union.

The timing of the UK’s exit from the EU remains subject to some uncertainty, although the legislation currently states that it will be 31 October 2019. Article 50 provides that the EU treaties will cease to apply to the UK two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two year period is extended by unanimous agreement of the UK and the European Council (currently, the period has been extended until 31 October 2019).

The terms of the UK’s exit from the EU are also unclear and will be determined by the negotiations taking place following the Article 50 Notice. It is possible that the UK will leave the EU with no withdrawal agreement in place if no agreement can be reached and approved by all relevant parties within the allotted time.

### ***Labour’s Nationalisation Policy***

The Issuers and the UK gas industry generally face increased scrutiny from regulators and key stakeholders, including the UK Government and other political parties. Following the 2017 UK General Election, there has been continued discussion and public and political comment on renationalisation.

The UK’s official opposition, the UK Labour Party, stated in its manifesto in the 8 June 2017 UK General Election a commitment that, were it to win the General Election, it would transition to publicly owned energy supply networks. Although the UK Labour Party did not win the 2017 UK General Election, it continues to maintain a policy (as confirmed at its party conference in September 2018, and in its policy paper entitled “*Bringing Energy Home*” published in May 2019) to bring key utilities back into public ownership if elected in the future. The UK parliament runs on a fixed term basis, with the next election scheduled for May 2022. However, an earlier election may be called on the vote of two-thirds of the House of Commons or a vote of no confidence in the UK Government.

In its paper entitled “*Bringing Energy Home*”, the Labour Party outlined a broad proposal under which the ownership, maintenance and operations of electricity and gas distribution companies would transfer to public Regional Energy Agencies by Act of Parliament.

## MIDCO FINANCING

SGN has an investment grade financing platform in a ring-fenced group of companies at the level of MidCo (the “**MidCo Financing**”).

The main driver for the MidCo Financing is to maintain an investment grade rating in the group of companies within the MidCo Financing structure whilst optimising capital structure.

The MidCo Financing is a multi-source secured financing platform at the MidCo level including bank financing, capital market financing, hedging, private placements, institutional term loans and other forms of debt. All the secured creditors under the multi-source secured debt platform benefit from a common security package, common covenants and common intercreditor terms.

The Issuers are part of the ring-fenced group and the shares in the Issuers are secured for the benefit of the secured creditors at the MidCo level. However, in relation to the MidCo Financing, the secured creditors in respect of the MidCo Financing have only limited recourse to the Issuers.

The Issuers have not guaranteed the debt (or other) obligations created at the level of the MidCo Financing. The Issuers have given certain representations and undertakings in respect of the MidCo Financing, the majority of which are either administrative (including as to due incorporation and having the power to perform their respective obligations) or relate to requirements to which the Issuers are already subject (such as pursuant to their respective GT Licences). Representations or undertakings of the Issuers that do not fall into the above categories relate to the following key areas:

- **Operation of Business:** not suspending or abandoning a material part of their appointed businesses;
- **Mergers, acquisitions and joint ventures:** not entering into any such transactions (subject to certain permitted exceptions which would support their appointed businesses);
- **Loans:** not being a creditor in respect of financial indebtedness (subject to a number of permitted exceptions including, amongst others, making loans to customers in the ordinary course of trade and loans made pursuant to a direction or recommendation of Ofgem);
- **Hedging Transactions:** not entering into hedging transactions for speculative purposes;
- **Restricted Payments:** not making any payment (e.g. distributions, dividends, etc.) to an affiliate during times of financial stress for the MidCo Financing;
- **Dividends:** an obligation to declare dividends to enable MidCo to make payments under the MidCo Financing (subject to a significant list of exclusions including directors’ duties, Licence requirements and availability of funds);
- **Insurances:** an obligation to maintain insurances with reputable insurance companies.

As neither Issuer has provided a guarantee in respect of the MidCo-level debt, no MidCo creditor may claim against either Issuer for the amount of the debt owed to it. Instead, claims by any MidCo creditor against the Issuer in respect of any breach of an Issuer representation or undertaking in relation to the MidCo Financing would be limited to a damages claim for breach of contract (and subject to satisfying standard loss, causation and remoteness requirements in making any such claim).

## MANAGEMENT

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

Name	Position	Principal Outside Activities
Gregor Alexander	Director and Chairman	Finance Director, SSE plc
Natalie Flageul	Director	Director of Customer Experience, SSE plc
Robert McDonald	Director	Managing Director of Transmission, SSE plc
Charlotte Brunning	Director	Senior Principal, Ontario Teachers' Pension Plan
Nicholas Salmon	Director	Company Director, Ontario Teachers' Pension Plan
Michael McNicholas	Director	Managing Director, Omers Infrastructure
John McManus	Director	Senior Advisor, Omers Infrastructure
Guy Lambert	Director	Head of Utilities, Infrastructure Division, Abu Dhabi Investment Authority
Paul Jeffery	Non-executive Director	Non-executive Director of UK Power Networks
Laura Sandys	Non-executive Director	Consultant
Ines Grund	Alternate Director	Investment Professional, Borealis Infrastructure
Charles Thomazi	Alternate Director	Managing Director of Infrastructure and Natural Resources, Ontario Teachers' Pension Plan
Peter McCosker	Alternate Director	Portfolio Manager, Abu Dhabi Investment Authority

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

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

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



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

John Morea joined SGN as Chief Operating Officer in May 2005 from SSE plc where he was Director of Distribution having responsibility for the asset management and operation of their electricity distribution and transmission assets. John became the first Chief Executive Officer of SGN in 2008 and has had extensive experience of energy networks, managing business change and delivering significant improvements in business efficiency while ensuring safe operation. John has over 35 years' experience within the utility sector and is a member of the Institute of Engineering and Technology and a companion of the Institute of Gas Engineers and Managers ("IGEM"). John is an incorporated engineer and holds a BSc (Hons) and an MBA. John is a current director of the Energy Networks Association and joined the Board of Thames Water in January 2019 as a non-executive director, having previously been a non-executive director of Associated British Ports.

### **Michael Carmedy, Chief Financial Officer**

Appointed in January 2018, Michael Carmedy joined SGN from Southern Water Services Limited where he was the Chief Financial Officer. Prior to this, Michael was at United Utilities where he was the Group Controller and Finance Director of United Utilities Water plc. Michael joined United Utilities in January 2008 from Thames Water Utilities Limited where he worked for 17 years in various financial, commercial and regulatory roles based in both the UK and the US.

### **Paul Denniff, Network and Safety Director**

Paul Denniff is a chartered mechanical and gas engineer and fellow of both the Institution of Mechanical Engineers and IGEM. He also holds an MBA. He joined British Gas in 1990 having worked for the Central Electricity Generating Board and AMEC beforehand. He has a wealth of knowledge and experience in running a gas network covering transmission and distribution operations, including strategic network planning, operations planning, asset management, procurement and contract management and change management. He was appointed the role of Director of Customer Service and Engineering Support when SGN was formed in 2005. Paul was appointed as Network Director in late 2008. Since August 2017, he has taken on the responsibility for safety within SGN. Paul joined the board of Electralink in November 2018 as a non-executive director and he also sits on the National Grid RIIO-T2 Stakeholder User Group.

### **Helen Bray, Director of Stakeholder Relations**

Helen Bray joined SGN in January 2017. She has extensive experience in senior stakeholder, communications and marketing roles in the publishing and healthcare sectors, as well as the Office for National Statistics. She has experience of managing global business transformation projects to deliver strategic change. Helen is the current President of the Energy and Utilities Alliance.

### **John Lobban, Managing Director, Scotland and Northern Ireland**

John is responsible for all Operations within Scotland including new Connections, Mains Replacement, Network Operations, Network Maintenance and the five Scottish LNG/LPG plants. He is also responsible for SGN's activities in Northern Ireland including the design and construction of the £250m HP gas infrastructure pipeline extension and for the SGN Natural Gas regulated business. In addition, he is responsible for all Major Construction projects in Scotland and the South of England. John is a Chartered Gas Engineer and a member of the Institute of Directors. He has extensive experience in Gas Distribution and Transmission and was appointed Director of Operations (Scotland) in 2005. Prior to this he held senior positions in Operations and Commercial and undertook the role of Network Sales Implementation Manager (Scotland) during the 2005 National Grid sales process. He has extensive experience in managing business change and delivering significant safety, customer and efficiency improvements.

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

Andrew Quail joined SGN in November 2008. He previously worked within a number of external organisations including; Centrica, Capgemini Consulting, Tata Consulting, and TUI Travel. As part of his remit, Andrew also has Executive responsibility for Innovation within the company. He sits on several CIO and IT advisory boards and is currently a Non-Executive Director of Xoserve plc.

### **Glenn Norman, Director of Operations (Southern)**

Glenn Norman joined SGN in 2008 as an integral part of the Southern Operations Leadership Team resulting in his appointment as Operations Director (April 2018). He has extensive knowledge with 28 years' experience in the gas and telecommunication industry having previously worked for National Grid in various operational and commercial roles and as part of Glenn's earlier career, was responsible for the Vodafone telecommunications network build in The Midlands and Central England. Glenn is a Fellow of IGEM and a Chartered Fellow of the Chartered Management Institute and was awarded the IGEM/EUA manager of the year award in 2013.

### **Kate Naylor, HR and Services Director**

Kate Naylor joined SGN in January 2017. An HR generalist, Kate has 20 years' experience as an HR Director across a number of industrial and commercial sectors including Rail, Air Traffic Control, Logistics, FMCG and Retail and has led a number of HR transformation projects. Her early career focused on talent management and development, when she spent 6 years working for British Gas. Kate is a Fellow of the Chartered Institute of Personnel and Development, a member of the Institute of Directors (the "IOD") and holds an honours degree in Physics as well as a certificate in company directorship from the IOD.

### **Simon Reilly, Commercial Director**

Simon joined SGN in May 2017. He is responsible for running SGN's non-regulated business, which includes a biomethane asset owning and service business, a business providing metering and gas maintenance services to third parties, an independent gas and electricity connections business and a property development business. He is also responsible for SGN's group procurement activities. Prior to joining SGN, Simon was Head of Commercial Finance at Eversholt Rail Group for 4 years and before that he spent 15 years at EY, where he was a Director in their Corporate Finance division. He is a Chartered Accountant (ICAS).

### **Nicola Graham-Shand, Company Secretary & Director of Legal and Compliance**

Nicola joined the Board as Company Secretary in July 2011. Nicola is Company Secretary and Director of Legal and Compliance of the Company and is responsible to the Board for compliance with Board procedures and for advising and keeping the Board up-to-date on all legal, compliance and corporate governance developments.

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

## **EMPLOYEES**

As at 31 March 2019, Southern GN had 560 full time equivalent employees and Scotland GN had 336 full time equivalent employees. In addition to this, SGN Contracting Limited had 2,961 full time equivalent employees who provide services to the Issuers.

## MATERIAL CONTRACTS

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

### (a) *Swap Positions*

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

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

The amount that each Issuer would be required to pay to (or receive from) the counterparty to these Swaps on a net present value basis changes daily, reflecting movements in the UK interest rates. Since, as described above, the Swaps provide a hedge position it could be potentially misleading to state a point in time approximation of value which may be materially different from that at the time that Notes are issued under the Programme.

Each Issuer may enter into swap transactions from time to time in a manner consistent with its hedging policy.

### (b) *Revolving Credit Facility Agreements*

On 14 March 2018, Southern GN entered into an amended and restated credit facility agreement with certain banks with aggregate commitments of £240 million and Scotland GN entered into an amended and restated credit facility agreement with the same banks with aggregate commitments of £120 million. In March 2019, the expiry date of both facilities was extended by 12 months to 15 March 2024. Southern GN and Scotland GN may request that the expiry date of their respective facilities be further extended for 12 months, but such request(s) is subject to the approval of the lenders. Any undrawn commitments may be adjusted between Southern GN and Scotland GN at any time.

### (c) *US Private Placement*

On 18 July 2018, Southern GN entered into a note purchase agreement (the "**Southern NPA**") with certain institutional investors (the "**Southern USPP Investors**"). Pursuant to the Southern NPA, Southern GN issued and the Southern USPP Investors subscribed for £75,000,000 2.74 per cent. Senior Series A Notes due 27 September 2030 and £75,000,000 2.87 per cent. Senior Series B Notes due 27 September 2033 on 27 September 2018.

On 18 July 2018, Scotland GN entered into a note purchase agreement (the “**Scotland NPA**”) with certain institutional investors (the “**Scotland USPP Investors**”). Pursuant to the Scotland NPA, Scotland GN issued and the Scotland USPP Investors subscribed for £75,000,000 2.74 per cent. Senior Series A Notes due 27 September 2030 and £75,000,000 2.87 per cent. Senior Series B Notes due 27 September 2033 on 27 September 2018.

**(d) EIB Finance Contracts**

Scotland GN entered into finance contracts with the European Investment Bank (the “**EIB**”), as follows:

- (a) £25,000,000 on 23 February 2011, due for repayment on 21 February 2020;
- (b) £50,000,000 on 9 March 2012, due for repayment on 30 March 2020; and
- (c) £100,000,000 on 14 October 2014, due for repayment as follows: £35,000,000 on 26 March 2025, £30,000,000 on 17 June 2026 and £35,000,000 on 16 September 2026.

Southern GN entered into a £300,000,000 finance contract with the EIB, due for repayment as follows: £125,000,000 on 13 October 2025, £80,000,000 on 27 March 2026, £60,000,000 on 17 June 2026 and £35,000,000 on 16 September 2026.

**(e) RPI Linked Facility Agreement**

On 10 July 2008, Southern GN entered into an RPI linked facility agreement with certain banks with aggregate commitments of £30 million.

**(f) Existing Notes**

As at the date of this Prospectus, Southern GN has the following Notes outstanding:

ISIN	Issue Date	Maturity Date	Principal Amount on the Issue Date	Coupon
XS0232334952	21-Oct-2005	21-Dec-2020	£215.0m	4.875% Fixed Rate Notes
XS0232335173	21-Oct-2005	21-Oct-2025	£150.0m	2.066% Index Linked Notes
XS0232335926	21-Oct-2005	21-Oct-2025	£83.3m	2.013% Index Linked Notes
XS0232335926	21-Oct-2005	21-Oct-2035	£83.3m	2.013% Index Linked Notes
XS0232335769	21-Oct-2005	21-Mar-2029	£375.0m	4.875% Fixed Rate Notes
XS0362679176	15-May-2008	15-May-2040	£225.0m	6.375% Fixed Rate Notes
XS0686570242	05-Oct-2011	05-Oct-2023	£300.0m	4.875% Fixed Rate Notes
XS1180063056	03-Feb-2015	03-Feb-2025	£350.0m	2.500% Fixed Rate Notes

XS1791704932	15-Mar-2018	15-Sep-2036	£400.0m	3.100% Fixed Rate Notes
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As at the date of this Prospectus, Scotland GN has the following Notes outstanding:

ISIN	Issue Date	Maturity Date	Principal Amount on the Issue Date	Coupon
XS0232332154	21-Oct-2005	21-Oct-2022	£165.0m	2.127% Index Linked Notes
XS0232332402	21-Oct-2005	21-Dec-2034	£225.0m	4.875% Fixed Rate Notes
XS0348776294	10-Mar-2008	10-Mar-2043	£80.0m	1% plus the Relevant Rate (LIBOR) Floating Rate Notes (LIBOR)
XS0460689044	02-Nov-2009	02-Nov-2039	£125.0m	2.317% Index Linked Notes
XS1375954945	08-Mar-2016	08-Mar-2027	£250.0m	3.250% Fixed Rate Notes

**(g) *MidCo Financing***

On 21 December 2017, the Issuers entered into certain Finance Contracts in connection with the MidCo Financing (see “*Business Description – MidCo Financing*”).

## TAXATION

### UK Withholding Tax on UK source interest

*The following is a general description of certain UK withholding obligations relating to the Notes based on current UK tax law and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this Prospectus. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates only to the position of persons who hold their Notes and Coupons as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable) and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders. It assumes that there will be no substitution of an Issuer and does not address the consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes). Prospective Noteholders who may be subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice.*

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

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

In all other cases, interest will generally be paid by the Issuer under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs under domestic law or to any direction to the contrary on application to HM Revenue & Customs under an applicable double taxation treaty.

The provisions relating to additional payments referred to in Condition 9 (*Taxation*) of the Notes would not apply if HM Revenue & Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double tax treaty.

### FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986 (the “Code”), commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“IGAs”), which modify the way in which FATCA applies in their jurisdictions.

Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be

required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining “foreign passthru payments” are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Additionally, Notes that are characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under Condition 15 (*Further Issues*) of the Terms and Conditions of the Notes) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

### **Transfer of Group Relief**

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

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

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

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

It is anticipated (but not assured) that payments will be made to coincide with the normal due dates for payment of corporation tax by the Issuers. This may include the payment for group relief by way of instalments (on dates equivalent to the corporation tax instalments regime). In such cases, the group relief (and related payments) will be calculated based on the anticipated levels of taxable profits and losses arising in the Issuers and SGN. To the extent that the finally agreed profits and losses differ from the anticipated amounts, further group relief payments may be required by the Issuers or monies may be refundable by SGN (in the event that the level of losses is lower than anticipated).

## SUBSCRIPTION AND SALE

### Summary of Programme Agreement

Subject to the terms and on the conditions contained in the amended and restated Programme Agreement dated 2 October 2019 (the “**Programme Agreement**”) between the Issuers, the Programme Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Programme Dealers.

However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Programme Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuers through the Dealers, acting as agent of the relevant Issuer.

The Programme Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

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

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

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

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

### Selling Restrictions

#### *United States*

The Notes have not been and will not be registered under the Securities Act or with any securities regulator authority of any state or other jurisdiction of the United States and may not be offered, sold or (in the case of bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons except in



certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, except in accordance with Rule 903 of Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Note, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes will be issued in accordance with the provisions of U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986 (the “Code”) (the “TEFRA D Rules”).

Index Linked Notes may be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable subscription agreement or the applicable confirmation letter.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

#### ***Prohibition of Sales to EEA Retail Investors***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the applicable Final Terms, as the case may be, in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
- (b) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

### ***United Kingdom***

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

- (a) in relation to Notes having a maturity of less than one year from the date of their issue (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (b) it has not offered or sold and will not offer or sell any such Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their business, where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) by the relevant Issuer;
- (b) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Issuer; and
- (c) it has complied with and shall comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

### ***Japan***

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

### ***General***

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

Each Dealer has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes the Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Issuers, the Trustee and any other Dealer shall have any responsibility therefor.

None of the Issuers, the Trustee and any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. With regard to each Tranche, the relevant Dealer will be required to comply with any additional restrictions agreed between the

relevant Issuer and the relevant Dealer and set out in the applicable subscription agreement or the applicable confirmation letter.

## FORM OF FINAL TERMS

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

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a “retail investor” means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”) or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[‘s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[‘s/s’] target market assessment) and determining appropriate distribution channels.

### Final Terms dated [●]

[SOUTHERN GAS NETWORKS PLC/SCOTLAND GAS NETWORKS PLC]

**Legal Entity Identifier:** [549300SPX8573VZ2SK79/ 549300Y7M5CC1U5DBX07]

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

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

### PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Prospectus dated [●] 2019 [and the supplement[s] to it dated [ ] [and [ ]]], including all documents incorporated by reference, which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Prospectus [as so supplemented] in order to obtain all the relevant information.. The Prospectus is [and [each of] the supplement[s] are] available for viewing on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

[Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Prospectus dated [ ] which are incorporated by reference in the Prospectus dated [●] 2019. This document constitutes the Final Terms of the Notes described herein for the purposes of

Regulation (EU) 2017 / 1129 (the “**Prospectus Regulation**”) and must be read in conjunction with the Prospectus dated [●] [and the supplement[s] to it dated [ ] [and [ ]]] in order to obtain all the relevant information which [together] constitutes[s] a base prospectus for the purposes of the Prospectus Regulation (the “**Prospectus**”), including the Conditions and any other documents incorporated by reference in the Prospectus. The Prospectus is available for viewing on the website of the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.]

1	(i)	Issuer:	[Southern Gas Networks plc/Scotland Gas Networks plc]
2	(i)	Series Number:	[ ]
	(ii)	Tranche Number:	[ ]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[Not Applicable]/[The Notes shall be consolidated, consolidated and form a single form a single Series and be interchangeable for trading purposes with [ ] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below, which is expected to occur on or about [ ]]]
3		Specified Currency:	[ ]
4		Aggregate Nominal Amount of Notes:	[ ]
	(i)	Series:	[ ]
	(ii)	Tranche:	[ ]
5		Issue Price:	[ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ]]
6	(i)	Specified Denominations:	[ ] [and integral multiples of [ ] in excess thereof up to and including [ ]]. Definitive Notes will not be issued in denominations in excess of [ ]
	(ii)	Calculation Amount:	[ ]
7	(i)	Issue Date:	[ ]
	(ii)	Interest Commencement Date:	[ ]/[Issue Date]/[Not Applicable]
8		Maturity Date:	[ ]/[Interest Payment Date falling in or nearest to [ ]]
9		Interest Basis:	[[ ] per cent. Fixed Rate] [[LIBOR/LIBID/LIMEAN/EURIBOR/SONIA] +/- [ ] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest]
10		Redemption/Payment Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the

- Maturity Date at [ ] per cent. of their nominal amount/[par]
- 11 Change of Interest or Redemption/Payment [ ]/[Not Applicable]  
Basis:
- 12 Call Options: [Applicable]/[Not Applicable]  
[Issuer Call]  
[Issuer Maturity Call]  
[Issuer Residual Call]  
[See paragraphs 18 and 19 below]
- 13 Date [Board] approval for issuance of [ ]  
Notes obtained:

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

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

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

	(iii)	Day Count Fraction in relation to Early Redemption Amounts:	Actual/Actual/Actual/Actual (ISDA) [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Note Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)] [Applicable/Not Applicable]
17		<b>Index Linked Interest Note</b>	
	(i)	Index:	[RPI]/[CPI]/[CPIH]
	(ii)	Rate of Interest:	[ ] per cent. per annum][Not Applicable]
	(iii)	Name and address of Calculation Agent (if any):	[ ]
	(iv)	Party responsible for calculating the Rate of Interest and/or Interest Amount (if not, or in addition to, the Principal Paying Agent):	[ ]
	(v)	Determination Date(s):	[ ]
	(vi)	Provisions for determining Coupon where calculation by reference to Index is impossible or impracticable or otherwise disrupted:	As described in Condition 6
	(vii)	Interest or calculation period(s):	[ ]
	(viii)	Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (viii) below]
	(ix)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(x)	Business Centre(s):	[ ]
	(xi)	Minimum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
	(xii)	Maximum Rate of Interest:	[ ] per cent. per annum/[Not Applicable]
	(xiii)	Day Count Fraction:	[Actual/Actual/Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Note Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
	(xiv)	Minimum Indexation Factor:	[Not Applicable/[ ]]



- (xv) Maximum Indexation Factor: [Not Applicable/[ ]]
- (xvi) Limited Indexation Month(s) or [ ]  
Period for calculation of  
Limited Indexation Factor:
- (xvii) Base Index Figure: [ ]
- (xviii) Index or Index Figure Lag: [3 months lag/8 months lag]
- (xix) Reference Gilt: [ ]

## PROVISIONS RELATING TO REDEMPTION

- 18 **Issuer Maturity Call** [Applicable/Not Applicable]
  - (i) Notice Periods Minimum Period: [15] days  
Maximum Period: [30] days
  - (ii) Issuer Maturity Call Period: The period commencing on (and including) the day that is [ ] days prior to the Maturity Date to (and excluding) the Maturity Date.
- 19 **Issuer Call** [Applicable/Not Applicable]
  - (i) Optional Redemption Date(s): [ ] [at any time prior to the first day of the Issuer Maturity Call Period]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Calculation Amount/[Calculated in accordance with Condition 7(e)]
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [ ] per Calculation Amount/[Not Applicable]
    - (b) Maximum Redemption Amount: [ ] per Calculation Amount/[Not Applicable]
  - (iv) Notice period: Minimum Period: [15] days  
Maximum Period: [30] days
  - (v) Applicable Uplift [[ ] basis points]/[Not Applicable]
  - (vi) Redemption Margin [[ ] basis points]/[Not Applicable]
- 20 **Issuer Residual Call**  
Optional Redemption Amount [ ] [Par] per Calculation Amount
- 21 **Final Redemption Amount** [ ] [Par] per Calculation Amount
- 22 **Early Redemption Amount**  
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default or other early redemption: [ ] per Calculation Amount

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

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

## THIRD PARTY INFORMATION

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

Signed on behalf of the Issuer:

By: \_\_\_\_\_

Duly authorised

## PART B — OTHER INFORMATION

### 1 LISTING

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

### 2 RATING

- Ratings: [The Notes to be issued have been rated:  
[Standard and Poor's: [ ]]  
[Moody's: [ ]]  
[[Fitch]: [ ]]  
[[Other]: [ ]]  
[The Notes to be issued have not been rated]  
*[Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*

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

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

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

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

### [5. Fixed Rate Notes only — YIELD

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

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

Information relating to the [UK Retail Price Index (all items) published by the Office of National Statistics]/[the UK Consumer Prices Index published by the Office for National Statistics]/[the UK Consumer Prices Index including Owner Occupiers' Housing costs and Council Tax published by the Office for National Statistics] can be found at [www.statistics.gov.uk].]

### **7 OPERATIONAL INFORMATION**

- (i) ISIN: [ ]
- (ii) Common Code: [ ]
- (iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable]/[ ]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes which are to be held under the NSS] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] /  
[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## LISTING AND GENERAL INFORMATION

- (1) From the date of this Prospectus and for so long as the Notes remain admitted to listing on the Official List and admitted to trading on the Regulated Market of the London Stock Exchange, copies of the following documents will be made available for inspection during usual business hours on any weekday (Saturdays, Sunday and holidays excepted) at the registered office of each Issuer and the website operated by the Issuers (<https://www.sgn.co.uk>) and at the specified office in London of the Principal Paying Agent:
  - (i) the memorandum and articles of association of each Issuer;
  - (ii) the annual report of Southern GN for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2019);
  - (iii) the annual report of Southern GN for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of Southern GN for the financial year ended 31 March 2018);
  - (iv) the annual report of Scotland GN for the financial year ended 31 March 2019 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2019);
  - (v) the annual report of Scotland GN for the financial year ended 31 March 2018 (which includes the auditors' report and audited non-consolidated financial statements of Scotland GN for the financial year ended 31 March 2018);
  - (vi) a copy of the Trust Deed (as amended from time to time);
  - (vii) a copy of the Agency Agreement (as amended from time to time);
  - (viii) a copy of the base prospectus dated 19 September 2011, a copy of the base prospectus dated 17 October 2014, a copy of the base prospectus dated 25 February 2016 and a copy of the base prospectus dated 2 March 2018;
  - (ix) this Prospectus; and
  - (x) any future prospectus, supplementary prospectuses and supplements including any Final Terms.
- (2) Each Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme. Resolutions authorising the update of the Programme and the publication of this Prospectus were adopted by the board of directors of Southern GN and Scotland GN on 6 June 2019.
- (3) As at the date of this Prospectus, there has been no significant change in the financial position or financial performance of Southern GN or Scotland GN, respectively, since 31 March 2019 and there has been no material adverse change in the prospects of Southern GN or Scotland GN, respectively, since 31 March 2019.
- (4) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of either Issuer.

- (5) Each Bearer Note, Coupon and Talon will bear a legend substantially to the following effect: “*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*”.
- (6) The Bearer Notes represented by the Temporary Global Note and the Permanent Global Note, and the Registered Notes represented by the Global Certificate, have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and ISIN for each Series of Notes will be contained in the Final Terms relating thereto.
- (7) KPMG LLP (chartered accountants, registered auditors and a member of the Institute of Chartered Accountants in England and Wales), have audited the financial statements of each Issuer for the financial year ended 31 March 2018 and the financial year ended 31 March 2019.
- (8) Set out as documents incorporated by reference to this Prospectus is the financial information of each Issuer for the financial year ended 31 March 2018 and the financial year ended 31 March 2019, prepared in accordance with FRS102, together with the related accountants’ reports of KPMG LLP. KPMG LLP has given and not withdrawn its written consent to the inclusion of its reports set out in the annual reports of each Issuer for the financial year ended 31 March 2018 and the financial year ended 31 March 2019 which are incorporated by reference to this Prospectus and has authorised the contents of those reports solely for the purposes of the Prospectus Regulation and rules 5.3.5R(2)(f) and R5.3.9 of the Prospectus Regulation Rules sourcebook which is annexed at Annex A to the Prospectus Regulation Rules Instrument 2019 (the “**Prospectus Regulation Rules**” “).
- (9) This Prospectus is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 1(4) and/or Article 1(5) (as applicable) of the Prospectus Regulation.
- (10) The Issuers do not intend to provide any post-issuance information.
- (11) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers and their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuers and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuers or their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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