

Delivering gas to the North of England



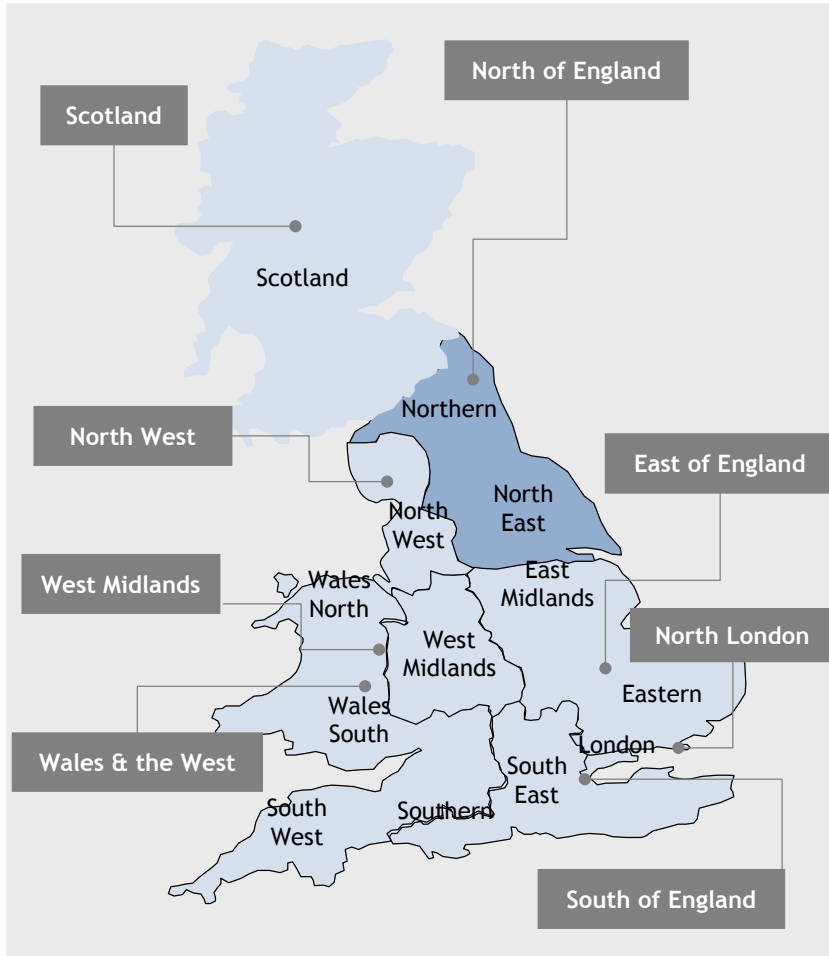
**Gas Customer Forum
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Communications Director**



Gas transportation System

Gas distribution networks



- The UK gas transmission and distribution network comprises the National Transmission System (NTS) and eight regional Distribution Networks (DNs). There are 13 Local Distribution Zones (LDZs).
- The NTS transports gas from terminals to more than 140 sites at which gas is offtaken to serve the DNs, power stations, large industrial consumers and the interconnectors
- The DNs transport gas through 275,000 kilometres of pipelines to approximately 21 million business and home consumers
- The DNs are largely discrete networks
- The assets owned by each DN include
 - The pipeline infrastructure required to transport gas
 - The leasehold and freehold property
 - An experienced management team and workforce
 - The contracts, intellectual property rights, procedures and licence to run the network



UK gas consumption

- Gas consumption in Britain is one of the highest in Western Europe
- The North of England DN has shown impressive growth of 34% in the period 1992-2002, well above the growth in total British demand of 27% over the same 10 year period
- Gas has increased its share of the UK primary energy market from 23% in 1982 to 41% in 2002. The main drivers have been
 - Significant growth in gas-fired power generation
 - Increases in industrial and commercial consumption of gas due to increasing levels of economic activity and fuel substitution
 - Move towards domestic use of gas for central heating
- Specifically the North of England DN has benefited from
 - Strong growth in the larger non-domestic firm market which has been promoted by developments in industrial sector demand
 - Considerable inward investment in the regional economy in recent years

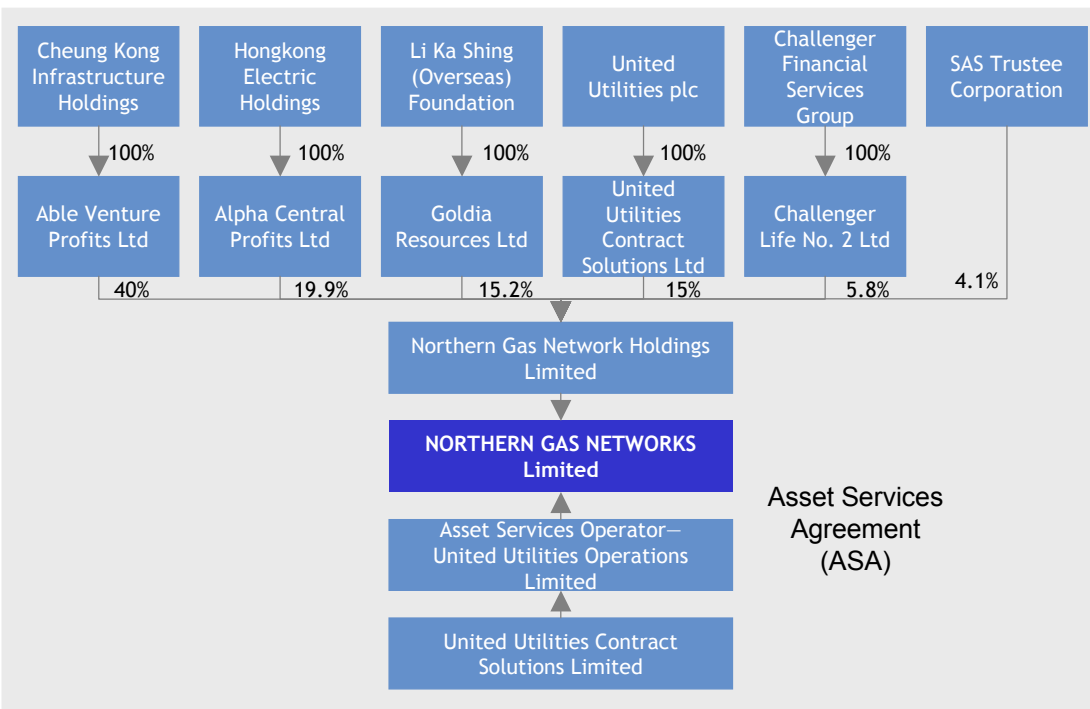


Forecast for gas demand

- National demand is forecast to grow at an average of 1.5% per annum from now to 2012. This is driven by the following
 - New housing completions projected at approximately 180,000 per year
 - An increase in non-domestic gas consumption driven by further growth in the service sector and the manufacturing sector returning to growth after being in recession during 2001 and 2002
 - Environmental initiatives such as the European Emissions Trading Scheme which are expected to support uninterrupted demand for gas as an immediately available alternative to more polluting fossil fuels (such as coal and oil)
 - This is expected to increase the proportion of the UK's primary energy consumption satisfied by gas to over 46% by 2010

NGN is owned by an experienced and well capitalised consortium

Consortium structure



- Cheung Kong Infrastructure is the major shareholder
- The Board comprises a strong combination of operational, management and financial experience
- The Senior Management team reporting to the Chief Executive Officer has been established with a combination of the existing DN Management team supplemented by external recruitment



The Consortium

Cheung Kong Infrastructure (40.0%)

- Largest Hong Kong publicly listed diversified infrastructure company
- Three core businesses—energy, materials and transportation
- Cash rich with ample capacity to raise financing
- Market cap of approximately HK\$54.6 billion (£3.9 billion) and S&P rating of A-

Hongkong Electric (19.9%)

- Owns and operates a vertically integrated electricity generation, transmission and distribution business in Hong Kong
- Sole supplier of electricity to Hong Kong Island and Lamma Island
- 38.9% owned by CKI
- In partnership with CKI, owns three electricity distribution networks in Australia
- Market cap of approximately HK\$75.3 billion (£5.4 billion) and S&P rating of A+

Li Ka Shing (Overseas) Foundation (15.2%)

- Co-ordinates donations towards medical, education, cultural and other community welfare projects
- Invests in projects with stable cash flow to secure future funding for their charitable projects



The Consortium (cont'd)

United Utilities plc (15.0%)

- Owns and operates regulated electricity/water/waste-water businesses in North West England
- Infrastructure management services in the UK and overseas
- Management contract for North of England DN
- Market cap of approximately £4.3 billion, rated A3/BBB+

Challenger (5.8%)

- A financial services group that manages and administers over £4.2 billion on behalf of over 100,000 Australian Investors
- Market cap of approx. £665 million

SAS Trustee Corporation (4.1%)

- A pension fund for many of the government employees in the state of New South Wales, Australia
- As at June 30, 2005, had net assets of £10.7 billion



- Active in 50 countries
- Over 200,000 employees
- Stable political and legal system

Northern Gas Networks Limited

- The shareholders of the Consortium joined together for the following major reasons
 - Each of the shareholders takes a long term view of the business
 - Looking for stable, risk adjusted running returns



Key Investor Considerations

Strong equity sponsorship

- The transaction benefits from the support and financial backing of a strong group of shareholders
- CKI and UU have considerable experience in owning and operating utility businesses globally, and both run regulated monopolies in the UK
- Hongkong Electric also has extensive experience in regulated utility businesses in Hong Kong and Australia
- There is a large cushion of equity from the consortium



Key Investor Considerations

Experienced and reputable operator

- The quality of our asset base is high and our asset management and operations arrangements including those driven by our Asset Services Agreement (ASA) with UUOL and the transitional New Services Agreements (NSAs) are comprehensive and proven
- Our operating model provides opportunities for innovations and enables us to leverage off UUOL's expertise. Our lean asset company will provide us with less bureaucracy and greater flexibility
- UUOL are an experienced and highly regarded asset operator
- Post acquisition, the North of England DN's management team stayed in place
- The management team has a wealth of experience running gas networks safely and reliably within tight budget constraints
- The DN also has a highly skilled and motivated workforce including teams of gas engineers with CORGI and other industry recognised qualifications



Overview of investment rationale

High quality shareholders

- Long term investment horizon
- Well established shareholders with demonstrable experience of investing or operating within the global utilities sector

Regulated monopoly business

- Mature, stable and transparent regulatory framework
- Strong cash flow

Strong independent board

- All shareholders represented
- Separation of day to day business management ensures high standards of governance are maintained

Significant sustainable competitive advantages

- Leveraging off shareholder strengths and good track record with health and safety within the network
- Adoption of best practice in all activities
- Adoption of a business model with UU which creates commercial efficiency opportunities

Management Team



Chief Executive Officer

Basil Scarsella

Finance Director

Regulation Director

Operations Director

Network Operations
Director

Head of Health, Safety
and Environment

Legal Director &
Company Secretary

Communications
Director

Chris Johns

Alex Wiseman

Chris Wright

Chris Gorman

Dave Hutchison

Mike Ashworth

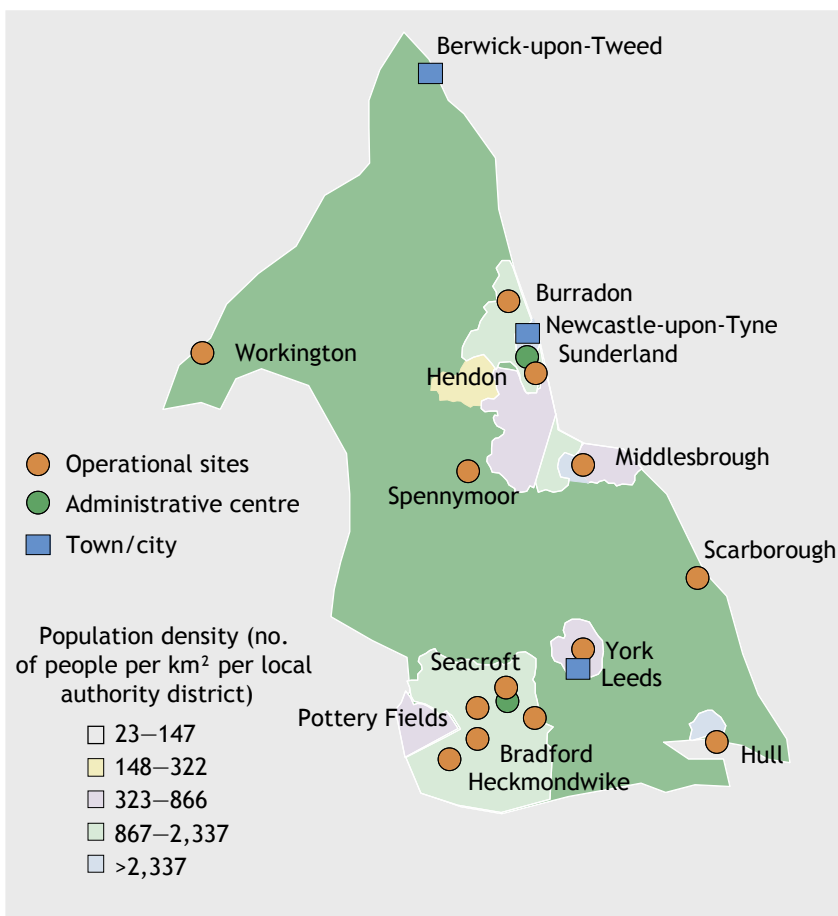
John O'Grady



Northern Gas Networks Limited



North of England region



- The DN is primarily rural (North Yorkshire and Cumbria) but also contains two of the six largest UK cities, Leeds and Bradford.
- 6.7 million inhabitants
- c. 2.5 million customers
- Gas mains distribution system of over 36,000 kilometres
- Experienced management team
- £257 million of regulated income for fiscal year 2005 (end March)
- Total demand over the period of 1992—2002 has grown by 34% compared to national demand growth of 27% in the same period



Organisation development

- NGN has implemented a unique business model based on the principles of Strategic Asset Management
- Under the Strategic Asset Management model, the roles of asset ownership, asset management and asset services are unbundled
- This offers incremental increased productivity, cost reduction, service improvement and growth opportunities
- On June 1, 2005, NGN contracted with United Utilities Operations Limited (UUOL) covering the provision of a wide range of services including
 - Operation and maintenance of the distribution network
 - Delivery of capital and mains replacement programmes
- UUOL is incentivised by sharing out-performance in each operational area with NGN. UUOL is expected to meet a set of defined targets in areas such as asset performance, emergency response, health and safety and licence and code compliance



Efficiency initiatives

NSAs

Replace transitional New Service Agreements (NSAs) provided by National Grid with more efficient in-house or third party arrangements

Support services

Provide corporate support services previously provided by National Grid (HR, finance, procurement, communications, regulation, property, insurance, safety, etc.) more efficiently and benefit from synergies

People management

Drive productivity improvements through performance culture, more efficient systems and overtime reduction

Operations

Reorganise UUOL management structure and delivery of operational activities (e.g., connections, metering, system control)

Contractor strategy

Drive procurement and commercial efficiencies through new contractor partnering strategies, review of balance of in-house and third-party activities



Strategy for regulatory review in March 2008

- Development and achievement of Opex, Capex and Repex budgets for the five year review that NGN can efficiently meet
- Establish a reasonable RAV, including allowance for Capex overspend
- Allowance for NGN to earn a reasonable return on the RAV
- Provision of incentives which provide opportunities for NGN to increase returns above the allowed cost of capital
- Mitigation of the risks to NGN of costs that are beyond our control



Achievements to date

- Delivered new Asset – Operator model
- Safety performance improvement
- Customer complaints reduced
- Profitability targets delivered
- New office location
- Delivery of connections strategy underway
- Safety Case update approved by HSE
- FOMSA replacement on schedule
- SOMSA project underway



Conclusion

Our innovative approach will deliver benefits for:

- Customers
- Employees
- Shareholders