



NORTHERN POWERGRID (NORTHEAST) PLC

*(incorporated in England with limited liability under
the Companies Act 1985 with registered number 02906593)*

£350,000,000

3.25 per cent Bonds due 2052

Issue Price: 99.52 per cent

The £350,000,000 3.25 per cent Bonds due 2052 (the "**Bonds**") of Northern Powergrid (Northeast) plc (the "**Issuer**") will be issued pursuant to the bond trust deed to be dated 1 April 2022 (the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as bond trustee (the "**Trustee**", which expression includes the trustee or trustees for the time being of the Trust Deed).

The Bonds will bear interest from 1 April 2022 at the rate of 3.25 per cent per annum payable annually in arrear on 1 April in each year.

The Bonds mature on 1 April 2052. The Issuer may, at its option, redeem all or (as the case may be) some only of the Bonds at any time in accordance with Condition 7(b) (*Redemption at the option of the Issuer*) at the higher of their principal amount and an amount calculated by reference to the sum of (A) yields on United Kingdom government stock plus (B) 0.25 per cent, together with accrued interest (other than in the case of any date fixed for redemption which falls in the period from and including the date falling three months prior to the scheduled maturity date of the Bonds to but excluding the scheduled maturity date, in which case the Issuer may redeem the Bonds at their principal amount together with accrued interest). The Issuer may also, at its option, redeem all (but not some only) of the Bonds at any time at their principal amount together with accrued interest in the event of certain tax changes as described in Condition 7(c) (*Redemption for tax reasons*). Upon the occurrence of certain events the holders of the Bonds may require the Issuer to redeem the Bonds at their principal amount together with accrued interest — see "*Terms and Conditions of the Bonds — Restructuring Event*".

An investment in the Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the United Kingdom Financial Conduct Authority (the "**FCA**"), as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, "**EUWA**") (the "**UK Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Bonds that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds.

An application has been made to the FCA for the Bonds 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 the Bonds to be admitted to trading on its main market. The London Stock Exchange's main market is a United Kingdom regulated market for the purposes of Regulation EU No. 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**").

This Prospectus comprises a prospectus for the purposes of the UK Prospectus Regulation.

The Issuer is rated A by S&P Global Ratings UK Limited, a division of S&P Global Inc. ("**S&P**") and A- by Fitch Ratings Limited ("**Fitch**"). The Bonds are expected to be rated upon issue A by S&P and A by Fitch. A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of S&P and Fitch is established in the United Kingdom ("**UK**") and is registered in accordance with Regulation EU No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). Neither S&P nor Fitch is established in the European Union and they have not applied for registration under Regulation EU No. 1060/2009 (as amended) (the "**CRA Regulation**"). The ratings issued by S&P and Fitch have been endorsed by S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited respectively. Each of S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is established in the European Union and registered under the CRA Regulation. As such each of S&P Global Ratings Europe Limited and Fitch Ratings Ireland Limited is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (at <http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.

UK MiFIR professionals/ECPs-only/No PRIIPs KID: Manufacturer target market (UK MiFIR product governance) is eligible counterparties and professional clients only (all distribution channels). No PRIIPs key information document (KID) has been prepared as not available to retail investors in the UK.

The Bonds will be in bearer form and in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. The Bonds will initially be represented by a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or around 1 April 2022 (the "**Closing Date**") with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). The Temporary Global Bond will be exchangeable, in whole or in part, for interests in a permanent global bond (the "**Permanent Global Bond**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive form with interest coupons attached.

Joint Lead Managers

Barclays

HSBC

RBC Capital Markets

UK MiFIR product governance / Professional investors and ECPs only target market

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook ("**COBS**") and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MiFIR**"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation / Prohibition of sales to EEA retail investors

The Bonds 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 **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 Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation / Prohibition of sales to UK retail investors

The Bonds 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 UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

The Issuer is responsible for this Prospectus and to the best of its knowledge, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

Certain information in this Prospectus has been sourced from the Gas and Electricity Markets Authority for Great Britain. The Issuer confirms that any information from third party sources has been accurately reproduced and that, so far as it is aware and is able to ascertain from

information published by such third party source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person has been authorised to give any information or to make representations, other than those contained in this Prospectus, in connection with the offering of the Bonds and, if given or made, any such information or representations must not be relied upon as having been authorised by the Issuer, the Joint Lead Managers (as defined under "*Subscription and Sale*" below) or the Trustee.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall under any circumstances constitute a representation, or create any implication that there has been no change since the date hereof in the affairs of the Issuer or that information contained herein has remained accurate and complete.

This Prospectus does not constitute an offer to sell, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any of the Bonds. This Prospectus does not constitute an offer and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

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

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

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**"), or under any relevant securities laws of any state or other jurisdiction of the United States, and are subject to U.S. tax law requirements. The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws. For a description of certain restrictions on the offer, sale and delivery of the Bonds and on the distribution of this Prospectus, see "*Subscription and Sale*".

The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on the distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*" below.

Each potential investor in any Bond must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in

the context of its particular financial situation, an investment in the relevant Bonds and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds; (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

All references herein to "pounds", "sterling", "Sterling" or "£" are to the currency of the UK.

In connection with the issue of the Bonds, Barclays Bank PLC (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meaning in this section.

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

Risks related to regulatory price controls

The Issuer is regulated by the Gas and Electricity Markets Authority for Great Britain (commonly referred to as "**Ofgem**") as a distribution network operator ("**DNO**"). As such, the Issuer is subject to price controls, set and enforced by Ofgem, that limit the revenue that may be recovered and retained from its electricity distribution activities. See "*Description of the Issuer – Regulatory Framework*" for more information on this. Ofgem has a duty to carry out its functions, including its price control functions, in a manner which it considers promotes value for money and protects the interests of consumers. Decisions by Ofgem in respect of permitted revenue and constraints on business developments may adversely impact the operations and financial position of the Issuer. In particular, discussions are currently taking place in respect of the next electricity distribution price control review (RIIO-ED2) and there is no guarantee that this, or future price control reviews will permit the generation of sufficient revenues to enable the Issuer to meet its financial obligations. If this were to occur, it would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Risks related to potential financial penalties and compensation payments

Pursuant to its regulation by Ofgem, the Issuer may be subject to financial penalties, enforcement orders, compensation payments imposed by Ofgem, or loss of incentive revenues, if it fails to comply with the conditions of its distribution licence or certain statutory conditions, if it fails to achieve a satisfactory performance in relation to individual standards of performance, or if it fails to operate and/or maintain its network properly, including failing to meet its required investment programme. See "*Description of the Issuer – Regulatory Framework*" for more information on this. If Ofgem deemed a failure to be so serious that severe penalties, enforcement orders or compensation payments were imposed on the Issuer, it would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Risks related to potential licence modifications

Ofgem has formal powers to modify the distribution licences of DNOs, including the Issuer. The Issuer is not aware of any proposed material modifications to its distribution licence, however discussions are currently taking place in respect of RIIO-ED2 and there is no

guarantee that Ofgem will not introduce a material modification to the Issuer's distribution licence under RIIO-ED2 or other measures in the future which could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Health and safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive, which could result in the Issuer being subject to substantial financial penalties, reputational damage, disruption of operations or criminal sanctions against the Issuer, its directors and employees. The Issuer places the highest priority on health and safety and invests in robust training and auditing of all its employees, however, failure to implement and maintain effective health and safety management and governance could result in a serious health and safety incident which would have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Environmental laws and regulations

The Issuer's activities, including the operation of the distribution network and the distribution of electricity, are potentially dangerous. The Issuer is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These laws and regulations expose the Issuer to costs and liabilities relating to its operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Issuer and sites used for the disposal of its waste.

Significant resources are committed towards ensuring compliance with these laws and regulations. Nevertheless, a major environmental impact incident could expose employees, contractors and third parties to the risk of injury, therefore exposing the Issuer to potential liability and/or loss of reputation. In addition, breaches of applicable environmental laws or regulations could expose the Issuer to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable environmental standards and regulations will not increase, and any such increased costs could adversely affect the Issuer's financial performance and its ability to pay interest and repay principal on the Bonds.

Network or IT Systems failure or interruption

The Issuer's business is heavily reliant on information technology ("IT") systems and the network infrastructure. The Issuer may suffer a major network failure or interruption or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. This could cause the Issuer to fail to meet the standards of service with which it is bound to comply, requiring the payment of specific penalties for default, or it could cause the Issuer to be in breach of a licence, approval, regulatory requirement, or contractual obligation, which could result in adverse regulatory and financial consequences.

Technology and Sustainability

As the UK aims to make significant reductions in its carbon emissions, the way in which electricity is produced and used is expected to have a substantial impact on the electricity network over time. This has already been evidenced through the number of low-carbon technology installations such as photovoltaic solar panels, electric vehicles and heat pumps. The volume and total capacity of decentralised energy generation has also been growing

steadily and, given the greater range of load and generation technologies now connected to the network, the Issuer is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the network.

Within the regulatory framework for innovation, the Issuer is running a portfolio of projects in the priority areas of decarbonisation, digital-enabled customer service and affordability.

The Issuer recognises that failure to invest sufficiently in technology and innovation may lead to failure to operate efficiently and may adversely affect the Issuer's financial performance and its ability to repay principal on the Bonds.

Events beyond Issuer's control

Damage to infrastructure

The Issuer may be affected by potential events that are largely outside its control such as the impact of weather, unlawful or unintentional acts of third parties or force majeure. Terrorist attacks, sabotage or other intentional acts may also damage its assets or otherwise significantly affect corporate activities.

Cybercrime is an increasing risk and the introduction of the General Data Protection Regulation (GDPR) during 2018, (which now forms part of UK domestic law by virtue of the EUWA) places additional duties on the Issuer which could lead to penalties for breaches.

Whilst the Issuer has in place measures to manage the risk that it sustains an adverse financial impact through inability to carry on its operations and has in place business continuity and IT disaster recovery plans, the risk remains that any failure or interruption could cause the Issuer to fail to meet agreed standards of service or be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences and therefore adversely affect the Issuer's ability to pay interest and repay principal on the Bonds.

Retail prices index movements and cost-base variations

The annual revenues of the Issuer are adjusted by the published Retail Prices Index ("**RPI**") in the UK. Ofgem will move away from RPI from RIIO-2 onwards to use the Consumer Prices Index Including Owner Occupiers' Housing Costs ("**CPIH**"). CPIH is similar to the Consumer Price Index (which excludes changes in housing costs and mortgage interest payments) but it includes a measure of owner-occupiers' housing costs (based on a rental equivalence approach). There is a risk that the Issuer's cost base may change at a different rate than its revenues due to changes in the RPI (or, when relevant, CPIH) affecting components of the Issuer's cost base or RAV. If that were to happen, its profitability could be reduced and, if the differential between RPI-linked (or, when relevant CPIH-linked) inflation and experienced operating cost inflation was sufficiently large, it could adversely affect the Issuer's business, financial position and results of operations and therefore the Issuer's ability to pay interest and repay principal on the Bonds.

Financing

The Issuer depends on being able to access financial markets to finance the Issuer's operations and to refinance existing indebtedness as it becomes due. As evidenced during the global financial crisis, the 2016 UK referendum vote to leave the European Union and recently the Covid-19 pandemic, financial markets can be subject to periods of volatility and shortages of liquidity. The stability of the global economy and financial institutions remains uncertain and if the Issuer were unable to access the capital markets or other sources of finance at competitive

rates for a prolonged period, this could adversely affect the ability of the Issuer to meet its funding requirements, which could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Insurance

The Issuer seeks to maintain insurance cover on all its key property and liability exposures to a level consistent with sound business practice, using appropriate insurance products and providers, including self-insurance where applicable. However, the insurance market is volatile, and it is not always possible to obtain appropriate cover at commercially acceptable premia or at all, which means that the Issuer may not always be able to obtain or renew insurance cover in respect of some risks. If one or more major incidents (such as accidents involving the Issuer's equipment) were to occur which were not covered, or not adequately covered, by insurance, this could adversely affect the Issuer's financial position and could have a significant negative impact on the ability of the Issuer to meet its payment obligations under the Bonds.

Procurement

To support its core business activities, it is necessary for the Issuer to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Whilst the Issuer receives protection from inflation through its price controls being index-linked (currently to the RPI), it will be exposed to any changes relative to inflation, either because of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Although the Issuer routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuer and could adversely affect its ability to pay interest and repay principal on the Bonds.

Pensions

The Issuer is a participating employer in the Northern Powergrid Group of the Electricity Supply Pension Scheme (the "**DB Scheme**"), a defined benefit pension scheme. Further details of the DB Scheme are set out in "*Description of the Issuer*" below.

The DB Scheme is currently in deficit and the deficit as at the last approved valuation date of 31 March 2019, was £116.3m with the deficit recovery plan aiming to repay this deficit by 2025. The scheme is subject to triennial valuations and the next valuation is due 31 March 2022.

The deficit can be affected by several factors including asset volatility, bond yields, interest rates, inflation and life expectancy of the DB Scheme members and could result in the Issuer being required to make higher ongoing contributions and/or deficit repair payments.

Under the electricity regulatory framework, the deficit repair payments relating to regulated distribution businesses and cash contributions payable in respect of new benefit accrual in defined benefit schemes, along with cash contributions payable to any defined contribution

arrangements are subject to efficiency reviews and will only be funded under the price control mechanism if deemed to be efficient.

Following an efficiency review of the DB Scheme by Ofgem in 2020, it was confirmed that the DB Scheme deficit would continue to be funded through the price control mechanism. However, if Ofgem deems under future efficiency reviews that any cash contributions have not been efficiently incurred, it may restrict the amount that can be recovered from customers in the future which could adversely affect the Issuer's financial position and the Issuer's ability to pay interest and repay principal on the Bonds.

Special Administration Regime for electricity distribution network operators ("DNO")

The Energy Act 2004 provides for a special administration regime for the holders of electricity distribution licences. This regime makes provisions for energy administration orders and is designed to ensure the uninterrupted operation of electricity networks essential to secure supply of electricity in the event of actual or threatened insolvency of such a licence holder.

An application for an energy administration order can only be made by the Secretary of State, or by Ofgem with the consent of the Secretary of State. Upon application, a court can only make an energy administration order if it is satisfied that the DNO is or is likely to be unable to pay its debts or that, on a petition from the Secretary of State under the Insolvency Act 1986, it would be just and equitable (aside from the objective of energy administration) to wind up the DNO in the public interest.

The making of an application for an administration order in respect of the Issuer would give rise to a moratorium on the enforcement of debts against the Issuer.

The energy administrator may preserve the DNO as a going concern or may transfer its undertaking as a going concern to one or more other companies. The objective of an energy administrator is to ensure that a DNO's distribution network is maintained and developed efficiently and economically and this objective takes precedence over the protection of the respective interests of members and creditors of the DNO and therefore could adversely affect the interests of the holders of the Bonds.

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

Early redemption by the Issuer at its option

The Issuer may, in the limited circumstances set out in Condition 7 (*Redemption and Purchase*) of the Terms and Conditions of the Bonds (the "**Terms and Conditions**") and subject to the provisions of that Condition, including as to minimum redemption price, redeem the Bonds prior to their stated maturity date. This early redemption feature may limit the market value of the Bonds. The market value of the Bonds is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Bonds may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Redemption prior to maturity for tax reasons

If the Issuer were to be obliged to increase the amounts payable in respect of the Bonds due to any change in or amendment to the laws or regulations of the UK or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the application or

official interpretation thereof, the Issuer may redeem all outstanding Bonds in accordance with the Terms and Conditions. It may not be possible for an investor to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds and this may only be possible at a significantly lower rate.

Absence of prior public markets

The Bonds constitute a new issue of securities by the Issuer. Prior to the issue, there will have been no public market for the Bonds. Although an application has been made for the Bonds to be admitted to trading on the Main Market of the London Stock Exchange, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, none of the Joint Lead Managers (as defined in "Subscription and Sale") and any other person is under any obligation to maintain such a market. The liquidity and the market price of the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market price of securities.

Integral multiples of less than £100,000

Although the Bonds will be admitted to trading on a regulated market within the UK and will only be issued with a minimum specified denomination of £100,000 it is possible that the Bonds may be traded in the clearing systems in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, should the Issuer be required to issue Bonds in definitive form ("**Definitive Bonds**"), holders of the Bonds who, as a result of trading such amounts, hold Bonds in the relevant clearing system in amounts that are not integral multiples of £100,000 may need to purchase or sell, on or before the date of exchange of the Permanent Global Bond for Definitive Bonds, a principal amount of Bonds such that their holding is equal to or an integral multiple of £100,000, otherwise such Bondholders may not receive all of their entitlements in Definitive Bonds.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents, which have been previously published and are incorporated in, and form part of, this Prospectus:

- (a) the auditor's report and audited financial statements of the Issuer for the year ended 31 December 2019 which appear on pages 28 to 83 of the Issuer's Annual Report and Financial Statements for the Year Ended 31 December 2019 (<https://www.northernpowergrid.com/document-library/financial>);
- (b) the auditor's report and audited financial statements of the Issuer for the year ended 31 December 2020 which appear on pages 25 to 102 of the Issuer's Annual Report and Consolidated Financial Statements for the Year Ended 31 December 2020 (<https://www.northernpowergrid.com/document-library/financial>); and
- (c) the unaudited financial statements of the Issuer for the six months ended 30 June 2021 which appear on pages 4 to 14 of the Issuer's Half Yearly Financial Report for the six months ended 30 June 2021 (<https://www.northernpowergrid.com/document-library/financial>).

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the website of the Issuer by using the links set out above.

Any documents or information that are incorporated by reference into the documents listed above do not form part of this Prospectus. Any information contained in any of the documents specified above which is not expressly incorporated by reference in this Prospectus does not form part of this Prospectus and is either not relevant to investors or is covered elsewhere in this Prospectus. Any information contained in any website referred to in any of the documents specified above does not form part of this Prospectus.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which, subject to amendment, will be endorsed on each definitive Bond. Bonds in definitive form will only be issued in certain limited circumstances. For a summary of the provisions relating to the Bonds in global form, see "Summary of provisions relating to the Bonds in global form" below.

The £350,000,000 3.25 per cent Bonds due 2052 (the "**Bonds**", which expression shall, unless the context otherwise requires, include any Further Bonds (as defined in Condition 3 (*Definitions*)) of Northern Powergrid (Northeast) plc (the "**Issuer**") are constituted by and subject to a trust deed dated 1 April 2022 (as the same may be amended and/or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**", which expression shall, wherever the context so admits, include its successors as trustee under the Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**"). The statements in these Terms and Conditions include summaries of and are subject to, the detailed provisions of the Trust Deed. The Issuer has entered into a paying agency agreement dated 1 April 2022 (the "**Paying Agency Agreement**") with HSBC Bank plc (the "**Principal Paying Agent**") and any paying agent appointed thereunder (each a "**Paying Agent**" and together with the Principal Paying Agent, the "**Paying Agents**") and the Trustee. Copies of the Trust Deed and the Paying Agency Agreement will be available for inspection by Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "**Couponholders**" and the "**Coupons**") at the specified office(s) of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the provisions of the Paying Agency Agreement applicable to them.

1. **Form, Denomination and Title**

The Bonds are serially numbered and in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Bonds will be issued with a denomination above £199,000. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of the other denomination. The holder of any Bond or Coupon will (except as otherwise required by law) 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 its theft or loss) and no person will be liable for so treating the holder. No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. **Status of the Bonds**

The Bonds and Coupons constitute direct, unconditional and (subject to the provisions of Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, subject as aforesaid and save for such obligations as may be preferred by laws that are both mandatory and of general application, at all times rank at least equally with all its present and future unsecured and unsubordinated obligations.

3. **Definitions**

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks and other financial institutions are open for business in London.

"Companies Act" means the Companies Act 2006 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"Electricity Act" means the Electricity Act 1989 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"Electricity Distribution Licence" means the electricity distribution licence granted or treated as granted to the Issuer under section 6(1)(c) of the Electricity Act.

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

"Energy Administrator" means an energy administrator appointed pursuant to Part 3 of the Energy Act.

"Event of Default" means any of the events set out in Condition 10 (*Events of Default*).

"Final Determination" means the final determination document published by Ofgem for each electricity distribution price control review.

"Fitch" means Fitch Ratings Limited.

"Further Bonds" means all further bonds created and issued by the Issuer in accordance with Condition 17 (*Further Bonds*) and/or for the time being outstanding or, as the context may require, a specific proportion thereof.

"Indebtedness For Borrowed Money" means any indebtedness (whether being principal, premium, interest or other amounts) for (i) money borrowed, (ii) payment obligations under or in respect of any acceptance or acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other debt securities 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 for a consideration other than cash.

"Investment Grade Rating" means a credit rating assigned by a Rating Agency of BBB- (in the case of such ratings assigned by S&P and/or Fitch) or Baa3 (in the case of such ratings assigned by Moody's) or the equivalents of such ratings for the time being, or better.

"Issue Date" means 1 April 2022.

"Moody's" means Moody's Investors Service Limited.

A **"Negative Rating Event"** shall be deemed to have occurred if (i) the Issuer does not, either prior to or no later than 14 days after the date of a Negative Certification (as defined in Condition 11 (*Restructuring Event*)) in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, from a Rating Agency, a rating of the Reference Rated Securities or these Bonds or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more or (ii) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating which is an Investment Grade Rating.

"Ofgem" means the Gas and Electricity Markets Authority and/or the Office of Gas and Electricity Markets, including their successor office or body, as appropriate.

"Potential Event of Default" means an event or circumstance which would with the giving of notice and/or lapse of time and/or the issuing of a certificate become an Event of Default.

A **"Put Event"** occurs on the date of the last to occur of (i) a Restructuring Event, (ii) either a Rating Downgrade or, as the case may be, a Negative Rating Event, and (iii) the relevant Negative Certification.

"Rating Agencies" means S&P and Fitch, and **"Rating Agency"** means either one of them.

A **"Rating Downgrade"** shall be deemed to have occurred (i) if the then current rating assigned to any Reference Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, (ii) if any Rating Agency shall then have already assigned a non-Investment Grade Rating (as described above) to the Reference Rated Securities, such rating is lowered one full rating category, provided that, in the case of (i) or (ii), if during the Restructuring Period the Reference Rated Securities have at least one Investment Grade Rating then it shall be deemed that no Rating Downgrade shall have occurred.

"Reference Gilt" means the 3.75 per cent Treasury Stock due 22 July 2052 or such other conventional (i.e. not index linked) UK Government Stock as the Issuer (with the advice of an independent financial institution of international repute appointed by the Issuer) may determine to be the most appropriate benchmark conventional UK Government Stock.

"Reference Rated Securities" means the Bonds for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt securities of the Issuer having an initial maturity of five years or more which are rated by a Rating Agency.

"Regulated Asset Value" means the regulatory asset value of the Issuer as set out in the most recent Final Determination or, if any electricity distribution price control financial model has been published on Ofgem's website since the most recent Final Determination, the regulatory asset value of the Issuer as set out in such financial model, in each case, adjusted for inflation, as of the 31 March nearest to the date of determination, *provided that* if at any time Ofgem alters its methodology of determining Regulated Asset Value in a manner which results in a change in Regulated Asset Value, appropriate adjustments to this definition (and to other terms defined or described herein solely for the purposes of this definition) so as to preserve the original intent of Condition 10(c) (*Events of Default*) shall be determined by an independent accountant experienced in the regulated electricity distribution market selected by the Issuer.

"Relevant Indebtedness" means any indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market.

"Restructuring Event" means the occurrence of any one or more of the following events:

- (i) (a) written notice being given to the Issuer of revocation of its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time or (b) the Issuer agreeing in writing to any revocation or surrender of its Electricity Distribution Licence which is requisite to the conduct

of the Issuer's business at the relevant time or (c) any legislation (whether primary or subordinate) being enacted terminating or revoking its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time, except in any such case in circumstances where a licence or licences is or are granted to the Issuer or a Subsidiary of the Issuer 100 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**Relevant Transferee**") and *provided that* the terms of such licence or licences are substantially no less favourable than the Electricity Distribution Licence in which event all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as holder of the Electricity Distribution Licence shall hereafter be deemed to be references to the licence or licences on substantially no less favourable terms and the Relevant Transferee respectively; or

- (ii) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the Electricity Distribution Licence on or after the Issue Date unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that the modified terms and conditions are not materially less favourable to the business of the Issuer. For the purposes of this paragraph (ii) a modification which (a) results in a licence or licences being granted to the Issuer or a Subsidiary of the Issuer 100 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (collectively, the "**Applicable Transferees**") and *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence or (b) results in a licence or licences being granted to an Applicable Transferee *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence, shall not be deemed to be a modification within this paragraph (ii). In the event of such a modification as is referred to in (a) or (b), all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as holder of the Electricity Distribution Licence shall thereafter be deemed to be references to the licence or licences granted to the Applicable Transferee and to the Applicable Transferee, respectively; or
- (iii) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State (or any successor) and/or Ofgem under the Electricity Act as in force on the Issue Date, unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer.

"Restructuring Period" means:

- (i) if at the time a Restructuring Event occurs there are Reference Rated Securities, the period of 90 days starting from and including the day on which the Restructuring Event occurs; or
- (ii) if at the time a Restructuring Event occurs there are not Reference Rated Securities, the period starting from and including the day on which the Restructuring Event occurs and ending on the day 90 days following the later

of (a) the date on which the Issuer shall seek to obtain a rating pursuant to the definition of Negative Rating Event prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (b) the date on which a Negative Certification shall have been given to the Issuer in respect of the Restructuring Event.

"**S&P**" means S&P Global Ratings UK Limited, a division of S&P Global Inc.

"**Security Interest**" means a mortgage, charge, lien, pledge or other security interest.

"**Subsidiary**" means a subsidiary or subsidiary undertaking within the meaning of the Companies Act.

4. **Negative Pledge**

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will ensure that none of its Relevant Indebtedness or the Relevant Indebtedness of any of its Subsidiaries nor any guarantee given by it or by any such Subsidiary of the Relevant Indebtedness of any other person will be secured by a Security Interest upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries unless the Issuer shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

- (a) all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed are secured to the satisfaction of the Trustee equally and rateably with the Relevant Indebtedness or guarantee of Relevant Indebtedness, as the case may be, by such Security Interest; or
- (b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds, the Coupons and the Trust Deed either
 - (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders, or
 - (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

5. **Interest**

The Bonds bear interest from (and including) the Issue Date at the rate of 3.25 per cent per annum payable annually in arrear on 1 April in each year (each, an "**Interest Payment Date**"). Each Bond will cease to bear interest from the due date for redemption thereof, unless upon due presentation, payment of principal or premium (if any) is improperly withheld or refused. In such event, each Bond shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (ii) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders in accordance with Condition 14 (*Notices*) of receipt of all sums then due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holder under these Terms and Conditions). In these Conditions, the period beginning on and including the Issue 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 is called an "**Interest Period**". Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the number

of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). Interest in respect of each £1,000 in principal amount of the Bonds (the "**Calculation Amount**") for any period shall be equal to the product of 3.25 per cent, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

6. **Payments**

Payments of principal, premium (if any) or interest in respect of the Bonds will be made against surrender of Bonds or, in the case of payments of interest due on an Interest Payment Date, against surrender of Coupons, at the specified office of any Paying Agent by a sterling cheque drawn on, or at the option of the holder, by transfer to a sterling account maintained by the payee with a branch of a bank in the City of London, subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) 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 (without prejudice to the provisions of Condition 8 (*Taxation*)) any law implementing an intergovernmental approach thereto.

Upon the due date for redemption of any Bond, all unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

If the due date for redemption of any Bond is not 1 April in any year, interest accrued in respect of such Bond from (and including) the last preceding 1 April will be paid only against presentation and surrender of such Bond.

If the due date for payment of any amount in respect of any Bond or Coupon is not a business day, then the holder thereof shall not be entitled to payment of the amount due until the next following business day nor to any further interest or other payment in respect of such delay. The expression "**business day**" in this Condition means a day other than a Saturday or Sunday on which banks are open for business in the place where the Bond or Coupon is presented and, in the case of payment by transfer to a sterling account as referred to above, in the City of London.

The names of the initial Principal Paying Agent and the other initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents *provided that* the Issuer will at all times maintain a principal paying agent. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter. Under no circumstances will interest be payable in the United States of America or any possession of the United States of America.

7. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Issuer will redeem the Bonds on 1 April 2052 (the "**Maturity Date**") at their outstanding principal amount.
- (b) *Redemption at the option of the Issuer:* The Issuer may, having given not less than 30 nor more than 45 days' notice in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem the whole or part (in principal amount of £5,000,000 or integral multiples thereof) of the Bonds at any time prior to the Maturity Date at a price equal to the Redemption Price together with interest accrued up to and including the date of redemption.

In this Condition, "**Redemption Price**" means:

- (i) in relation to any date fixed for redemption which falls in the period up to (but excluding) the Par Call Date, the higher of the following:
 - (1) par; and
 - (2) that price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the Gross Real Redemption Yield (calculated as described below) on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the sum of: (A) Gross Real Redemption Yield on such dealing day of the Reference Gilt, on the basis of the middle market price of the Reference Gilt prevailing at 11:00 a.m. on such dealing day, as determined by an Independent Adviser; and (B) 0.25 per cent;
- (ii) in relation to any date fixed for redemption which falls in the period from (and including) the Par Call Date to (but excluding) the Maturity Date, par.

Any reference in these Terms and Conditions to principal shall be deemed to include any sum payable as the Redemption Price.

Notices of redemption will specify the date fixed for redemption, the applicable Redemption Price and, in the case of partial redemption, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of the Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after the redemption. No such notice of redemption may be given by the Issuer unless it shall have presented to the Trustee a certificate signed by two Directors of the Issuer (upon which the Trustee may rely absolutely) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption the Issuer shall be bound to redeem the Bonds called for redemption at the applicable Redemption Price. Any partial redemption of the Bonds shall be on the basis of selection by drawings (the method of such drawings to be approved by the Trustee in its absolute discretion).

"**Gross Real Redemption Yield**" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom

Debt Management Office publication "Formulae for calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998, page 5 and updated on 15 January 2002 and 16 March 2005 and as further updated or amended from time to time.

"Independent Adviser" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense.

"Par Call Date" means the date falling three months prior to the Maturity Date.

- (c) *Redemption for tax reasons:* If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 30 March 2022, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall accept such certificate as sufficient evidence thereof) of a certificate signed by two Directors of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it) the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 7(b) (*Redemption at the option of the Issuer*) prior to any notice being given under this Condition 7(c)), but not some only, at their outstanding principal amount together with interest accrued to (but excluding) the date of redemption, *provided that* no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due and *provided further that* no notice of redemption may be given by the Issuer unless two Directors of the Issuer shall have certified to the Trustee that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at their principal amounts outstanding plus accrued interest on the date specified for redemption (the Trustee being able to rely on such certificate absolutely).
- (d) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase or otherwise acquire Bonds (provided that all unmatured Coupons are attached thereto or are surrendered therewith) at any price in the open market or otherwise.
- (e) *Cancellation:* All Bonds which are redeemed pursuant to this Condition by the Issuer shall be cancelled (together with all relative unmatured Coupons attached thereto or surrendered therewith) and accordingly may not be reissued or resold. Bonds purchased by or on behalf of the Issuer or any of its Subsidiaries may be held or reissued or resold or surrendered for cancellation.

8. Taxation

- (a) All payments in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom, or any political subdivision of, or authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:
 - (i) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of such holder having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
 - (iii) presented for payment more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days.
- (b) In these Terms and Conditions, "**Relevant Date**" means the date on which the payment first becomes due, but if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14 (*Notices*).
- (c) Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9. Prescription

Bonds and Coupons will become void unless presented for payment within periods of ten years and five years, respectively, from the Relevant Date for payment in respect thereof, subject to the provisions of Condition 6 (*Payments*).

10. Events of Default

If:

- (a) default is made in the payment of any principal or premium (if any) in respect of any Bond pursuant to Condition 7 (*Redemption and Purchase*), or for a period

of 14 days or more in the payment of any interest due in respect of the Bonds;
or

- (b) the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) (i) any other Indebtedness For Borrowed Money of the Issuer or any of its Subsidiaries becomes due and repayable prior to its stated maturity by reason of an event of default (however described) or (ii) any such Indebtedness For Borrowed Money is not paid when due or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Indebtedness For Borrowed Money of, any person or (iv) any security given by the Issuer or any of its Subsidiaries for any Indebtedness For Borrowed Money of any person or any guarantee or indemnity of Indebtedness For Borrowed Money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case referred to in (i), (ii), (iii) or (iv) where there is a *bona fide* dispute as to whether the relevant Indebtedness For Borrowed Money or any such guarantee or indemnity as aforesaid shall be due and payable, and *provided that* the aggregate amount of the relevant Indebtedness For Borrowed Money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds 5 per cent of Regulated Asset Value and such event shall continue unremedied or unwaived for more than 14 days (or such longer grace period as may have been originally provided in the applicable instrument) and the time for payment of such amount has not been expressly extended (until such time as any payment default is remedied, cured or waived); or
- (d) 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 the Bondholders; or
- (e) the Issuer or any of its Subsidiaries shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other arrangement (i) not involving or arising out of the insolvency of the Issuer or such Subsidiary and under which all or substantially all of its assets are transferred, in the case of the Issuer, to a Subsidiary of the Issuer or, in the case of a Subsidiary, to the Issuer or another Subsidiary of the Issuer, or in either case, to a transferee which is, or immediately upon such transfer becomes a Subsidiary of the Issuer or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether a Subsidiary or Subsidiaries of the Issuer or not) for full consideration by the Issuer or any such Subsidiary on an arm's length basis or (iii) the terms of which have previously been

approved by an Extraordinary Resolution of the Bondholders *provided that* if the Issuer shall cease to hold or shall transfer the Electricity Distribution Licence (other than where the Electricity Distribution Licence is revoked, terminated or surrendered in the circumstances envisaged by paragraph (i)(a), (b) or (c) of the definition of Restructuring Event in Condition 3 (*Definitions*) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to paragraph (i) of such definition) the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) above shall apply) unless the transferee of the Electricity Distribution Licence is the Issuer or a Subsidiary of the Issuer, at least 51 per cent of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**NE Transferee**") and in such event all references in these Terms and Conditions to the Issuer in its capacity as holder of the Electricity Distribution Licence shall thereafter be deemed to be references to the NE Transferee; or

- (f) the Issuer or any of its Subsidiaries shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Part I of the Insolvency Act 1986; or
- (g) a receiver, administrative receiver, Energy Administrator, administrator or other similar official shall be appointed in relation to the Issuer or any of its Subsidiaries or in relation to the whole or a substantial part of the undertaking or assets of any of them 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 a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 120 days (or such longer period as the Trustee may in its absolute discretion permit),

and, in the case of sub-paragraphs (b), (c) and (e) to (g) (inclusive) the Trustee shall have certified in writing that the relevant event is in its opinion materially prejudicial to the interests of the Bondholders, the Trustee may at its discretion (and the Trustee shall on the request in writing of the holders of at least one quarter in principal amount of the Bonds then outstanding or upon being so directed by an Extraordinary Resolution of the Bondholders), by notice in writing to the Issuer declare that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed), *provided always that* the giving of any notice in relation to any Event of Default shall not operate as a waiver of any of the Trustee's rights (including the right to give a further notice) or prevent the Trustee from giving a further notice in the manner referred to above in relation to that Event of Default at any time thereafter.

So long as any of the Bonds remain outstanding the Issuer will, forthwith upon becoming aware of any Event of Default or Potential Event of Default, give notice in writing thereof to the Trustee.

For the purpose of sub-paragraph (f) 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 Ofgem may from time to time determine by notice in writing to the Issuer for the purposes of Schedule 2 (Revocation) of its Electricity Distribution Licence.

Neither the Issuer nor any Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (f) above if any such demand as is mentioned in Section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer or the relevant Subsidiary with recourse to all appropriate measures and procedures.

11. **Restructuring Event**

(a)

- (i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and during the Restructuring Period an Independent Financial Adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition shall cease to have any further effect in relation to such Restructuring Event.
- (ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to paragraph (a)(i) above):
 - (1) within the Restructuring Period, either:
 - (A) if at the time such Restructuring Event occurs there are Reference Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (B) if at such time there are not Reference Rated Securities, a Negative Rating Event in respect of such Restructuring Event also occurs; and
 - (2) an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a "**Negative Certification**"),

then, unless at any time the Issuer shall have given a notice under Condition 7(b) (*Redemption at the option of the Issuer*) or Condition 7(c) (*Redemption for tax reasons*), in each case expiring prior to the Put Date (as defined below), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the "**Put Option**") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

Notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, no Bondholder shall be entitled to exercise the Put Option and to serve a Put Notice if the rating assigned to the Reference Rated Securities or these Bonds by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Reference Rated Securities or these Bonds by any Rating Agency an Investment Grade Rating or, in the event that the rating assigned to the Reference Rated Securities immediately prior to the occurrence of the Rating Downgrade or Negative Rating Event was not an Investment

Grade Rating, if such rating is restored, in either case prior to any Negative Certification being issued.

Any certification by an Independent Financial Adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interest of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders. For the purposes of this Condition, an "**Independent Financial Adviser**" means a financial adviser appointed by the Issuer and approved by the Trustee or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, appointed by the Trustee.

A Rating Downgrade or a Negative Rating Event or a non-Investment Grade Rating shall be deemed not to have occurred as a result of or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign an Investment Grade Rating as provided in this Condition does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade 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.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event, a Rating Downgrade or any event which could lead to the occurrence of or could constitute a Restructuring Event, a Negative Rating Event or a Rating Downgrade has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event, Rating Downgrade or other such event has occurred.

- (b) Promptly upon the Issuer becoming aware that a Put Event (as defined in Condition 3 (*Definitions*)) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and (subject to it being indemnified and/or prefunded and/or secured to its satisfaction) if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "**Put Event Notice**") to the Bondholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a business day (as defined in Condition 6 (*Payments*)) in London and in the place of such specified office falling within the period (the "**Put Period**") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder may specify a bank account complying with the requirements of Condition 6 (*Payments*) to which payment is to be made under this Condition. Each Bond should be delivered together with all Coupons appertaining thereto maturing

after the day (the "**Put Date**") being the fifteenth day after the date of expiry of the Put Period, failing which any such missing Coupon will become void and no payment shall be made in respect of it. The Paying Agent to which such Bond and Put Notices are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6 (*Payments*). A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 9 (*Prescription*), 10 (*Events of Default*), 12 (*Enforcement*), 13 (*Replacement of Bonds and Coupons*) and 15 (*Meetings of Bondholders, Modification and Waiver*) receipts issued pursuant to this Condition shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.

12. **Enforcement**

- (a) *Limitation on Bondholders:* Only the Trustee may pursue the remedies available under general law or under the Trust Deed to enforce the rights of the Bondholders and Couponholders and no such holder will be entitled to proceed against the Issuer unless the Trustee, having become bound to act in accordance with the terms of the Trust Deed, fails to do so within a reasonable amount of time and such failure is continuing.
- (b) *Enforcement Proceedings:* At any time after amounts in respect of principal of and interest on the Bonds shall have become due and payable but are unpaid, the Trustee may, at its discretion, and without further notice but subject as mentioned below, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed in accordance with the terms thereof.

The Trustee shall only be bound to take proceedings pursuant to this Condition 12(b) if it has been indemnified and/or prefunded and/or secured to its satisfaction by the Bondholders and if it has been so requested in writing by the holders of not less than 25 per cent of the principal amount outstanding (as defined in the Trust Deed) of the Bonds or has been so directed by an Extraordinary Resolution (as defined in the Trust Deed).

13. **Replacement of Bonds and Coupons**

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may, subject to all applicable laws and stock exchange requirements, be replaced at the specified office of the Principal Paying Agent (or such other Paying Agent as may be approved by the Trustee for such purpose) upon payment by the claimant of the expenses, taxes and duties incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. **Notices**

All notices to Bondholders shall be valid if published in a leading English language national daily newspaper (which is expected to be the *Financial Times*) or, if this is not practicable, in a leading English language daily newspaper with a circulation in Europe.

Such notices 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 such publication. If publication is not practicable, notice shall be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

15. **Meetings of Bondholders, Modification and Waiver**

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing more than half in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Terms and Conditions and certain of the provisions of the Trust Deed (including altering the currency of payment of the Bonds or Coupons), the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present or represented at the meeting, and on all Couponholders.
- (b) The Trustee may, without the consent of the Bondholders or Couponholders, agree (i) other than in respect of Reserved Matters (as specified and defined in Schedule 5 to the Trust Deed), to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or to any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or of any of the provisions of the Trust Deed or determine that any event, condition or act which would otherwise be an Event of Default, Potential Event of Default or Restructuring Event shall not be so treated provided that, in the opinion of the Trustee, so to do would not be materially prejudicial to the interests of the Bondholders, and provided further that the Trustee will not do so in contravention of any express direction given by any Extraordinary Resolution or a written request made pursuant to Condition 10 (*Events of Default*) but no such direction or request will affect any previous waiver, authorisation or determination, or (ii) to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed which is made to correct a manifest error or which is of a formal, minor or technical nature.
- (c) In connection with the exercise of its trusts, powers, authorities or discretions (including, but not limited to, any modification, waiver, authorisation or substitution) the Trustee shall have regard to the interests of Bondholders as a class and, in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to

require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders, except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

- (d) Any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or any of the provisions of the Trust Deed shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

16. **Substitution**

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution of any wholly-owned Subsidiary of the Issuer (the "**Substituted Obligor**") in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed, subject to the Trustee being of the opinion that the interests of the Bondholders will not be materially prejudiced thereby and certain other conditions set out in the Trust Deed being complied with, including that (unless the Issuer's successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under the Trust Deed, the Bonds and the Coupons are unconditionally and irrevocably guaranteed by the Issuer in form and manner satisfactory to the Trustee.

17. **Further Bonds**

- (a) Subject as mentioned below, power will be reserved to the Issuer to create and issue Further Bonds forming (or so as to form after the first payment of interest thereon) a single series with the Bonds *provided that*:
 - (i) the Trustee is satisfied that the rating granted in respect of the Bonds by S&P and Fitch will not thereby be adversely affected; and
 - (ii) such issue shall be constituted by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).
- (b) The Issuer shall not be entitled to exercise the power reserved in this Condition 17 (*Further Bonds*) while any default exists in relation to any payment by the Issuer of any amounts due under the Trust Deed.

18. **Trustee**

The Trust Deed contains provisions governing the responsibility of the Trustee and providing for its indemnification and relief from responsibility in certain circumstances, (including provisions relieving it from taking proceedings against the Issuer unless indemnified and/or secured and/or prefunded to its satisfaction) and to be paid its costs and expenses in priority to the claims of the Bondholders. The Trustee may not resign its appointment unless a successor, willing to act in such capacity, has been appointed by the Issuer and the Bondholders by Extraordinary Resolution, *provided that* the Trustee shall not be prevented from resigning its appointment if, having given notice in writing to the Issuer of its intention to so resign its appointment, a successor is not appointed within the period of three months from the date of such notice.

19. **Governing Law**

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

There will appear at the foot of the Terms and Conditions endorsed on each Bond in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will initially be in the form of the Temporary Global Bond which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. The Temporary Global Bond will be exchangeable in whole or in part for interests in the Permanent Global Bond not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. Investors will not be entitled to receive Definitive Bonds except in the limited circumstances described in the following paragraph.

The Permanent Global Bond will become exchangeable in whole, but not in part, for Definitive Bonds at the request of the bearer of the Permanent Global Bond against presentation and surrender of the Permanent Global Bond to the Principal Paying Agent if any of the following events (each, an "**Exchange Event**") occurs: (a) an Event of Default, or (b) Euroclear or Clearstream, Luxembourg 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 (c) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or of any political sub-division of, or any authority in, the United Kingdom having power to tax or any change in the application or official interpretation of such laws or regulations which becomes effective on or after 30 March 2022, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Bonds which would not be required if the Bonds were in definitive form.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Temporary Global Bond and the Permanent Global Bond (together, the "**Global Bonds**"). While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

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

In addition, the Temporary Global Bond and the Permanent Global Bond will contain provisions which modify the Terms and Conditions as they apply to the Temporary Global Bond and the Permanent Global Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Bond and the Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Bond or (as the case may be) the Permanent Global Bond at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Bond or (as the case may be) the Permanent Global Bond, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 11 (*Restructuring Event*) the bearer of the Permanent Global Bond must, within the period specified in the Conditions for the deposit of the relevant Bond and put notice, give written notice (or electronic notice in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg) of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 7(b) (*Redemption at the option of the Issuer*) in relation to some only of the Bonds, (a) the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions and the Bonds to be redeemed will not be selected as provided in the Terms and Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and (b) the notice of redemption will not specify the serial numbers of the Bonds called for redemption or the serial numbers of the Bonds previously called for redemption and not presented for payment. The rules and procedures of Euroclear and Clearstream, Luxembourg provide that a partial redemption will be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Bonds are represented by the Permanent Global Bond (or by the Permanent Global Bond and/or the Temporary Global Bond) and the Permanent Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Quorum: So long as the outstanding Bonds are represented by the Temporary Global Bond and/or the Permanent Global Bond, a single voter appointed in relation thereto or being the holder of the Bonds represented thereby shall be deemed to be two voters for the purpose of forming a quorum.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are expected to be approximately £346,920,000.
The net proceeds from the issue of the Bonds will be used for general corporate purposes.

DESCRIPTION OF THE ISSUER

Background

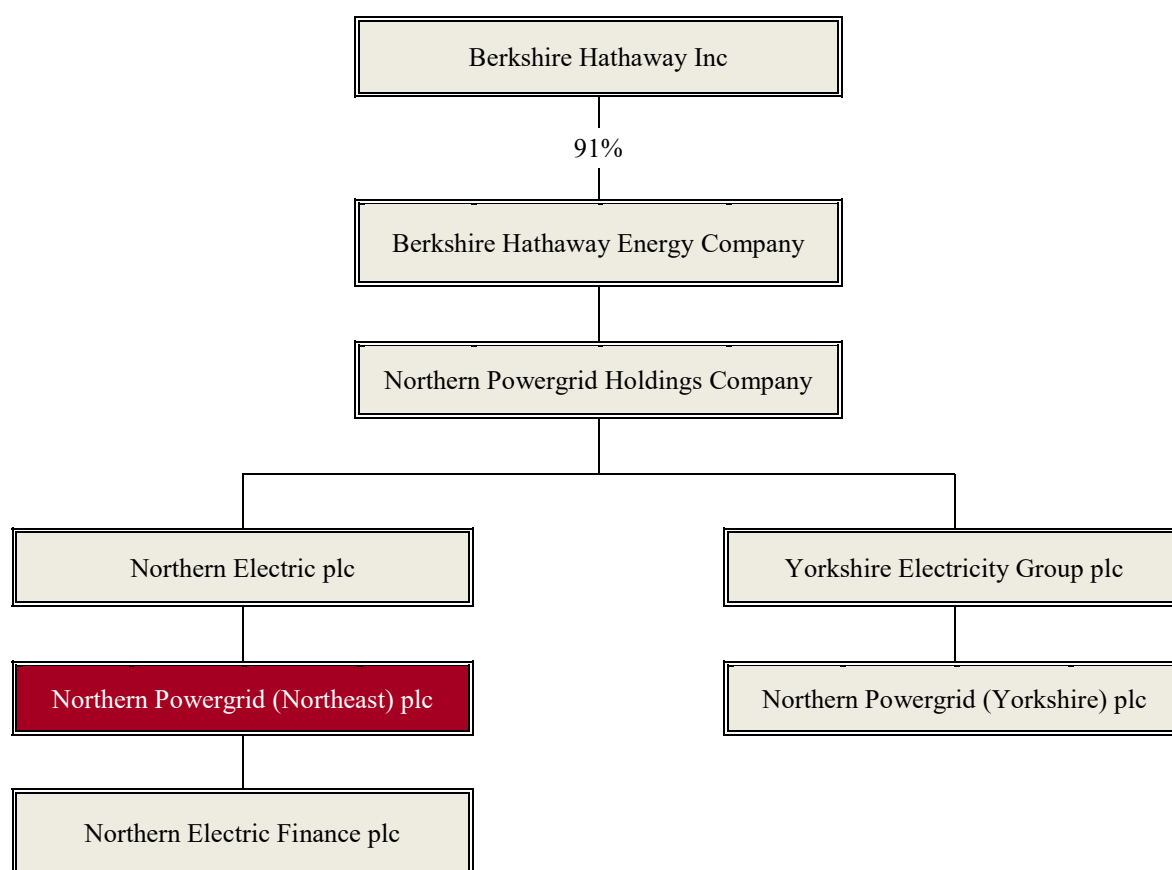
Northern Powergrid (Northeast) plc (the "**Issuer**") was incorporated on 9 March 1994 as a limited company with registered number 02906593. On 3 June 2020 the Issuer converted to a plc. The registered office of the Issuer is Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF and its telephone number is +44 (0) 191 223 5151. The Issuer changed its name from Northern Electric Distribution Limited to Northern Powergrid (Northeast) Limited with effect from 31 October 2011. The website of the Issuer is <https://www.northernpowergrid.com/>.

The Issuer is a regulated electricity distribution network operator ("**DNO**"). It is a wholly-owned subsidiary of Northern Electric plc, and an indirect wholly-owned subsidiary of Northern Powergrid Holdings Company ("**Northern Powergrid**", and, together with its subsidiaries, the "**Northern Powergrid Group**"). Northern Powergrid was formerly known as CE Electric UK Funding Company. The Issuer's ultimate parent company is Berkshire Hathaway, Inc. a company incorporated in the United States of America.

Northern Powergrid also indirectly wholly-owns the share capital of Northern Powergrid (Yorkshire) plc ("**Northern Powergrid (Yorkshire)**"), which is also a DNO. The Issuer and Northern Powergrid (Yorkshire) operate together as a single commercial entity under the brand "Northern Powergrid". As required by Ofgem (as defined below) in its regulation of DNOs, the Issuer and Northern Powergrid (Yorkshire) are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. The Issuer and Northern Powergrid (Yorkshire) are separately assessed by the Gas and Electricity Markets Authority (commonly referred to as "Ofgem") through the distribution price control review process. On a management and commercial level, the Issuer and Northern Powergrid (Yorkshire) are operated on a combined basis through shared divisional management. The costs of shared services, employees and operations are allocated back to the Issuer and Northern Powergrid (Yorkshire) as appropriate.

The Issuer holds 100% of the issued share capital of Northern Electric Finance plc.

The table below is a summary of the organisational structure showing certain holding companies and affiliated companies of the Issuer in the Northern Powergrid regulated business. Certain intermediate holding companies and affiliates of the Issuer carrying out non-regulated activities, such as engineering contracting and gas exploration, are not included.



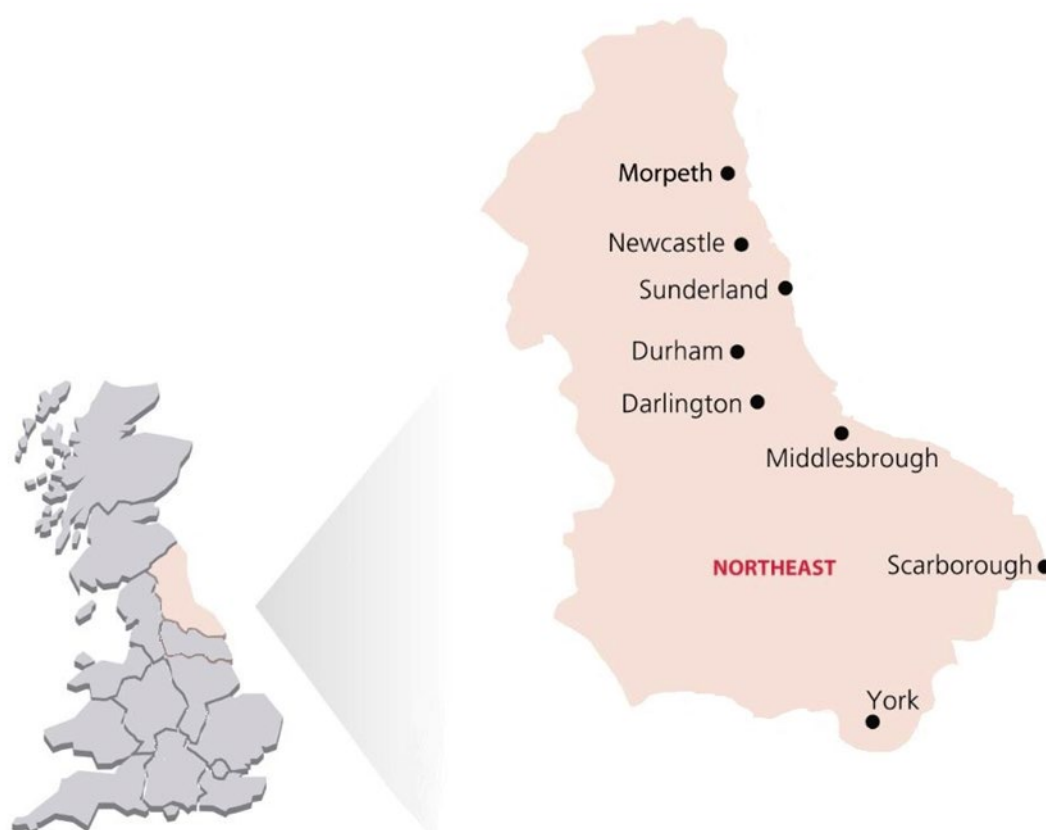
Distribution Business

The Issuer is one of the fourteen DNOs in England, Wales and Scotland. Its distribution service area is in the northeast of England which extends from North Northumberland, south to York and west to the Pennines. The electricity distribution network includes over 41,000 kilometres of overhead and underground cables and over 27,000 substations.

The principal function of the Issuer is to build, maintain and operate the electricity network through which end-users receive a supply of electricity. The Issuer receives electricity from National Grid's transmission network (which connects the larger power stations) and from smaller generators (such as windfarms) that are directly connected to the Issuer's network. This electricity is distributed by the Issuer on behalf of suppliers to approximately 1.6 million customers connected to its electricity distribution network of transformers, switchgear, overhead power lines and underground cables, at voltages of up to 132kV. Some 13,182 gigawatt-hours of electricity were distributed to those customers during the year ended 31 December 2020.

The Issuer holds an electricity distribution licence granted by the Secretary of State under the Electricity Act 1989 authorising it to distribute electricity for the purpose of supply to premises. The Issuer is regulated by Ofgem.

The Issuer Distribution Service Area Map



Regulatory Framework

Each of the fourteen licensed DNOs distributes electricity within its respective distribution service area.

The Issuer as a DNO is subject to regulation by Ofgem under the terms of the Electricity Act 1989 and its distribution licence. Ofgem has a duty to carry out its functions, including its price control functions, in a manner which it considers promotes value for money and protects the interests of consumers. In performing that duty, Ofgem must have regard to the need for efficient licence holders to be able to finance their regulated activities. In addition, DNOs have a duty to maintain an investment grade credit rating.

DNOs are subject to price controls, set and enforced by Ofgem, which limit the revenue that may be recovered and retained from their electricity distribution activities. The regulatory regime that has been applied to DNOs encourages companies to look for efficiency gains in order to improve profits.

The distribution price control formula adjusts the revenue received by DNOs to reflect several factors, including, but not limited to, the rate of inflation as measured by the Retail Price Index ("RPI") and the quality of service delivered by the DNO's distribution system. The price control formula has been, and may be, reviewed at Ofgem's discretion. The current price control has been set for a period of eight years, with provision for mid-period review (although on 30 April 2018, Ofgem published its decision that it would not trigger a mid-period review). The procedure and methodology adopted at a price control review are at the reasonable discretion

of Ofgem. Ofgem's judgment of the future allowed revenue of DNOs has been based upon, among other things:

- actual operating and capital costs;
- operating and capital costs which each of the DNOs would incur if it were as efficient, in Ofgem's judgment, as the most efficient DNO;
- actual value of certain costs which are judged to be beyond the control of the DNO;
- expected taxes;
- the value ascribed by Ofgem to the capital employed in the regulated business ("**RAV**"), which takes account of network expenditure allowed by Ofgem;
- rate of return to be allowed on the RAV;
- financial ratios and licence requirements to maintain investment grade status;
- allowances in respect of the repair of the pension deficits in the defined benefit pension schemes sponsored by the DNO; and
- under / over-recoveries of revenues, relative to allowed revenues, in the previous price control period.

The price control formula determines the maximum revenue that the DNO is entitled to charge. There is a common charging regime for all the DNOs, approved by Ofgem, which reasonably recovers the allowed revenue from customers. Changes to the common methodology are governed by the Distribution Connection and Use of System Agreement ("**DCUSA**"). Parties to DCUSA and parties authorised by Ofgem can propose changes to the common methodology.

A number of incentive schemes also operate within the price control period to encourage DNOs to provide an appropriate quality of service to end users with penalty payments made by DNOs to end users where guaranteed standards of service have not been met. The aggregate of these guaranteed standards payments is uncapped but may be excused in certain prescribed circumstances that are generally beyond the control of the DNO. The Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over the price control period and improve customer interruptions and customer minutes lost over the period.

Changes to the price controls can be made by Ofgem without the consent of the DNO, but this is subject to a right of appeal by the DNO to the Competition and Markets Authority ("**CMA**") on specified grounds. Certain other interested parties also have the same right.

Any application for permission to appeal must be made within 20 working days of Ofgem's decision to modify the DNO's licence conditions to implement the new price control. If the CMA grants permission to appeal, the applicable legislation requires that the CMA determine the appeal within six months or in some exceptional circumstances seven months. The Issuer and Northern Powergrid (Yorkshire) appealed Ofgem's proposals for the resetting of the formula that commenced 1 April 2015, as did one other party, and the CMA subsequently revised aspects of Ofgem's price control decision.

The current electricity distribution price control, known as RIIO-ED1 (Revenue=Incentives+Innovation+Outputs) became effective on 1 April 2015 and runs until 31 March 2023. This price control was the first to be set for electricity distribution since Ofgem completed its review of network regulation (known as the RPI-X @ 20 project). The key changes to the price control calculations, compared to those used in previous price controls, are that:

- the period over which new regulatory assets are depreciated is being gradually lengthened, from 20 years to 45 years, with the change being phased over eight years;
- some adjustments to allowed revenues will take effect during the price control period, rather than at the next price control review, including adjustments to partially reflect cost variances relative to cost allowances;
- the allowed cost of debt will be updated within the price control period by reference to a long-run trailing average based on external benchmarks of utility debt costs;
- allowed revenues will be adjusted in relation to some new service standard incentives, principally relating to new connections to the network; and
- there is scope for a mid-period review and adjustment to revenues in the latter half of the period for any changes in the outputs required of DNOs for certain specified reasons. On 30 April 2018, Ofgem published its decision that it would not trigger a mid-period review.

Ofgem published its Final Determination in November 2014 under RIIO-ED1. Under Ofgem's determination, as revised by the CMA, and excluding the effects of incentive schemes and any deferred revenues from the prior price control, the base allowed revenue of the Issuer remains constant throughout the period of the RIIO-ED1 price control before the addition of inflation. Nominal base allowed revenues will increase in line with inflation.

On 8 December 2020 Ofgem published its final determinations for the next transmission and gas distribution price controls (T2 and GD2) which will run from April 2021. The decisions did not set out proposals for the Issuer's next price control which will run from April 2023, however, some of the proposals may be capable of application to that price control. The decision confirmed a continued intention to move to lower allowed returns.

On 6 August 2019, Ofgem published its initial consultation on the next electricity distribution price control review, which is due to set charges for a period of five years from April 2023 (RIIO-ED2). This initial consultation was followed by a framework decision on 17 December 2019. On 30 July 2020 Ofgem published the RIIO-ED2 sector specific methodology consultation, setting out more detail on the methodology Ofgem will use to apply its framework. On 17 December 2020 Ofgem published its RIIO-ED2 sector specific methodology decision, followed by a separate finance annex on 11 March 2021. Ofgem has proposed that it will largely continue the approach set out in its final determinations for T2 and GD2. The draft and final determinations are planned for quarters two and four 2022.

The Issuer has been actively involved in all these price control discussions and will be directly affected by the electricity distribution price control review. The Issuer's final business plan for RIIO-ED2 was submitted to Ofgem by the Issuer on 1 December 2021.

Ofgem monitors compliance by DNOs with their licence conditions. As well as imposing price controls, licence conditions govern terms of service, financial ring-fencing and the financial strength of the DNO, the provision of information to Ofgem and the public, the maintenance of transparency and non-discrimination, and the avoidance of cross-subsidy in the provision of regulated services. Ofgem also monitors and enforces DNO compliance with certain statutory duties set out in the Electricity Act 1989, including the duty to develop and maintain an efficient, coordinated and economical system of electricity distribution.

Ofgem can issue enforcement orders to and/or impose financial penalties on DNOs that contravene any licence condition, any of certain statutory duties under the Electricity Act 1989 (as amended) or which are failing to achieve a satisfactory performance in relation to the

individual standards of performance. Any penalty imposed must be reasonable and may not exceed 10% of the DNO's revenue.

While the distribution licence may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings, it otherwise continues indefinitely until revoked following no less than 25 years' written notice. Ofgem has formal powers to modify each distribution licence. The Issuer may appeal against any modifications to its distribution licence on one or more specified grounds. Ofgem routinely makes minor modifications to the Issuer's distribution licence. The last material modification was made to give effect to the RIIO-ED1 price control.

RAV

The latest RAV values for the RIIO-ED1 price control review period beginning on 1 April 2015 as outlined by Ofgem in its electricity distribution price control financial model published in November 2021 are shown in the following table, all values are expressed in 2012/13 prices. The base RPI index for the 2012/13 prices is based on average RPI and is 244.675.

Annual Values as at March (£m, 2012/2013 prices)								
	2016	2017	2018	2019	2020	2021	2022	2023
Opening RAV	1,129	1,154	1,175	1,184	1,193	1,207	1,224	1,225
Net additions (after disposals)	127	124	114	115	120	114	97	96
Depreciation	(-) 102	(-) 104	(-) 105	(-) 106	(-) 106	(-) 97	(-) 96	(-) 94
Closing RAV	1,154	1,175	1,184	1,193	1,207	1,224	1,225	1,227

The above values are subject to adjustment to reflect the rate of inflation as measured by RPI.

Strategy

In common with the Northern Powergrid Group, the Issuer's long-term financial strategy is to operate the business with a simple and conservative funding structure which maintains a good investment grade credit rating.

The Issuer operates a business model and strategy based on its six core principles, which are:

Core Principle	Strategic objective	Key Performance Indicators ("KPI")
Financial strength	Strong finances that enable improvement and growth.	<ul style="list-style-type: none"> - Operating profit - Maintenance of investment grade credit ratings - Cash flow
Customer service	Delivering exceptional customer service.	<ul style="list-style-type: none"> - Broad measure of customer satisfaction - Stakeholder Engagement rank
Operational excellence	High-quality, efficient operators running a smart reliable energy system.	<ul style="list-style-type: none"> - Customer Minutes Lost - Customer Interruptions - Network investment - High voltage restoration time

Employee commitment	High-performing people doing rewarding jobs in a safe and secure workplace.	<ul style="list-style-type: none"> - Occupational Safety and Health Administration Rate - Preventable Vehicle Accidents - Lost time accidents - Restricted duty accidents - Medical treatment accidents - Operational incidents - Absence rate
Environmental respect	Leaders in environmental respect and low carbon technologies.	<ul style="list-style-type: none"> - Total Oil/Fluid Lost - SF6 Gas discharges - Environmental Incidents - Carbon Footprint
Regulatory integrity	Trustworthy, fair and balanced,	<ul style="list-style-type: none"> - Quarterly certification

Sustainability

As the UK takes action to make significant reductions in its carbon emissions following the establishment of a net zero carbon emissions target by 2050, the way in which electricity is produced and used is expected to have a substantial impact on the Issuer's distribution network over time. The Issuer has laid out its intention to act as a key facilitator in the UK's net zero transition by placing decarbonisation as the heart of its plans for the next distribution price control period. The Issuer is actively exploring how best to contribute to the achievement of this target through decarbonisation of its own operations, including electrifying its fleet of vehicles, as well as enabling the uptake of low-carbon technology installations such as photovoltaic solar panels, electric vehicles and heat pumps.

The volume and total capacity of decentralised energy generation has also been growing steadily and, given the greater range of load and generation technologies now connected to the Issuer's distribution network, it is taking action to develop innovative solutions that will reduce the need for traditional and potentially expensive reinforcement of the network. In the past year the Issuer has continued to market test the provision of flexible solutions, whereby customers are invited to support the distribution network by changing their energy consumption and generation patterns, facilitating a more efficient and greener distribution network. To understand how to prepare the distribution network most efficiently for the future needs of its customers, the Issuer has continued to build on its views of potential pathways to net zero in its region through its publication of Distribution Future Energy Scenarios in December 2020.

From an innovation perspective, the Issuer continues to run and develop a portfolio of projects in the priority areas of decarbonisation, digital-enabled customer service and affordability. During the year, the Issuer successfully launched its Silent Power vans following a successful innovation project which enable the dispatch of mobile battery technology vehicles to provide restoration of the electricity supply following a power cut in place of traditional diesel generators. In addition, the collaboration with Northern Gas Networks at the Integral demonstrator site continued to assess the potential future benefits of integrating both gas and electricity energy systems.

The Issuer's climate change adaptation strategy recognises the impact that climate change is anticipated to have on the business, the risks this poses and the proposed actions to mitigate these risks including vegetation management, distribution network specifications for changing temperatures and improved weather prediction. The installation of flood defences is one such key activity that is already underway and the delivery of the capital programme in the RIIO-ED1 period remains on track.

Environmental

The Issuer operates a UK Accreditation Service scheme for environmental management and is certified to the environmental management systems standard ISO 14001:2015. The ISO 14001 standard is designed to enhance environmental performance, fulfil compliance obligations and achieve environmental objectives, all of which contribute to the achievement of the Issuer's Key Performance Indicators. A full recertification assessment was carried out in March 2020 and surveillance audits are carried out twice per year, the last one being conducted in October 2021. Continued certification was confirmed following each audit.

The Issuer's carbon footprint reporting framework is certified under the Certified Emissions Measurement and Reduction Scheme for compliance with ISO 14064-1:2006. The last full audit was undertaken in August 2021, where continued certification was confirmed. Initiatives including the introduction of electric vehicles and the deployment of a forward looking infra-red camera and an SF6 spectrum imager (which both aid the identification of leaking gas-filled equipment), led to a further improvement in reducing the Issuer's carbon footprint during the year to 15,110 tonnes (2019: 15,677 tonnes).

In support of the target to further reduce oil and fluid loss, the 2020 annual environmental improvement plan included replacing fluid-filled cables and locating cable fluid leaks more quickly which resulted in a reduction in total fluid loss to 7,205 litres (2019: 11,660).

To maintain its strict policy of environmental protection and legal compliance, the Issuer continues to assess environmental risks and mitigate threats through programmes of work such as fluid-filled cable replacement, undergrounding overhead lines in areas of outstanding natural beauty, installing flood defences, implementing secondary containment in high-risk substations and removing equipment containing polychlorinated biphenyl from the distribution network. Whilst prevention is paramount, in the event the Issuer's activity does result in a leak or spill, the services of an appointed 24-hour a day environmental response consultancy is used to minimise the effects of any incident. In addition to safeguarding the environment from its direct activities, the Issuer also operates a habitats programme which is aimed at protecting flora and fauna.

Customer Information

Substantially all the end-users in the Issuer's distribution service area are connected to the Issuer's network and electricity can only be delivered to these end-users through its distribution systems, thus providing the Issuer with distribution volumes that are relatively stable from year to year. The Issuer charges fees for the use of its distribution systems to suppliers of electricity and to generators that are connected to the Issuer's network.

Suppliers purchase electricity from generators, sell the electricity to end-user customers and use the Issuer's distribution network pursuant to an industry standard DCUSA. The principal electricity suppliers that use the Issuer's network are E.ON UK plc and certain of its affiliates and British Gas plc. The industry operates in accordance with a framework which sets credit limits for each supply business based on its credit rating or payment history and requires them to provide credit cover if their value at risk (measured as being equivalent to 45 days usage)

exceeds the credit limit. Acceptable credit typically is provided in the form of a parent company guarantee, letter of credit or security deposit. Ofgem has indicated that, provided the Issuer has implemented credit control, billing and collection in line with best practice guidelines and can demonstrate compliance with the guidelines or is able to satisfactorily explain departure from the guidelines, any bad debt losses arising from supplier default will be recovered through an increase in future allowed income. Supplier failure is administered in the interests of customers by Ofgem, through the appointment of a supplier of last resort.

Variations in demand from end-users can affect the revenues that are received by the Issuer in any year, but such variations have no effect on the total revenue that the Issuer is allowed to recover in a price control period as under or over recoveries against price-controlled revenues are carried forward into prices for future years.

The Issuer's service territory features a diverse economy with no dominant sector. The mix of rural, agricultural, urban and industrial areas cover a broad customer base concentrated around the principal centres of Newcastle and Middlesbrough.

Nearly all the revenue generated by the Issuer is from regulated activities. The table below shows that in each of 2018, 2019 and 2020, 84% of the Issuer's revenue came from regulated activities for Distribution Use of System charges ("DUoS") offset by generation DUoS ("GDUoS"). Most of the Issuer's unregulated revenue was generated from trading with affiliates.

<i>Revenue segmental analysis</i>	2020 £m	2019 £m	2018 £m	<i>Variance (%)</i>	
				<i>2020 v 2019</i>	<i>2019 v 2018</i>
Regulated – DUoS	304	296	287	3%	3%
Regulated – GDUoS	(-)4	(-)3	(-)3	33%	0%
Unregulated – Other	29	29	29	0%	0%
Total	329	322	313	2%	3%
Deferred revenue	27	26	25	4%	4%
Total reported revenue	356	348	338	2%	3%

Almost all the revenues from regulated activities come from the relatively stable market sectors of residential, commercial and industrial customers. The tables below indicate that residential and commercial customers represented 51% of electricity distributed and 63% of revenues received in 2020.

<i>GWh distributed segmental analysis</i>	2020 GWh	2019 GWh	2018 GWh	<i>Variance (%)</i>	
				<i>2020 v 2019</i>	<i>2019 v 2018</i>
Residential	5,252	4,982	5,104	5%	(-)2%
Commercial	1,411	1,644	1,741	(-)14%	(-)6%
Industrial	6,377	7,097	7,296	(-)10%	(-)3%
Unmetered	142	156	172	(-)9%	(-)9%
Total GWh distributed	13,182	13,879	14,313	(-)5%	(-)3%

Demand for electricity is heavily influenced by underlying customer behaviour and a drive for energy efficiency reflecting higher retail energy prices and increased local small-scale

generation (e.g. photovoltaic cells). Reductions in electricity distributed generally reflect warmer temperatures and downward pressure on demand created by higher retail energy prices between the years.

Residential units show an increase in usage during 2020 primarily due to the Covid-19 pandemic with lockdown leading to increased working from home and school closures. This increased usage is offset by reduced usage in Commercial and Industrial during 2020, again primarily due to the pandemic and the temporary closure of commercial and industrial sites.

<i>DUoS revenue segmental analysis</i>	2020	2019	2018	<i>Variance (%)</i>	
	£m	£m	£m	<i>2020 v 2019</i>	<i>2019 v 2018</i>
Residential	156	139	136	12%	2%
Commercial	36	39	39	(-)8%	0%
Industrial	108	114	108	(-)5%	6%
Unmetered	4	4	4	0%	0%
Total revenue	304	296	287	3%	3%

Despite the decrease in units during 2020, across all market sectors except residential, total revenue shows an increase. This is due to tariff increases across all market sectors, offsetting the lower usage. The larger increase in industrial revenue during 2019 is due to average tariff increases for industrial sites being high compared to those for residential, commercial and unmetered sites.

Covid-19 Pandemic

The Issuer has developed a management plan in response to the Covid-19 pandemic which is fully operational. As a provider of a key national infrastructure, the Issuer has robust policies and processes in place to minimise the effect of disruptions to service and has considerable experience of invoking its major incident procedures. The pandemic management plan has been developed to provide a dynamic approach to the way in which the Issuer and the wider Northern Powergrid Group is run to ensure essential operations are maintained whilst supporting the health and well-being of staff. The Issuer's response is aligned to UK Government advice and formulated with the oversight of the Department for Business, Energy & Industrial Strategy.

The business continuity and disaster recovery plans were fully tested and whilst adaptation and flexibility were required, operational performance remained resilient and employees continued to perform their duties safely. Due to challenges associated with accessing customer premises, many jobs were postponed, but in conjunction with the Issuer's wider response to the pandemic, safe ways of working were developed to protect employees and customers and allowed connections work to recommence.

The pandemic required the Issuer to quickly accommodate considerable adjustments to its usual employee working arrangements such as introducing home working, flexibly supporting working parents and ensuring the safety and wellbeing of all employees, particularly those keyworkers operating in the field environment. Any required changes or updates were communicated regularly via multiple channels to ensure that all colleagues were able to continue to perform their duties safely and effectively.

The Issuer's revenue derives principally from regulated electricity distribution and neither this revenue nor the Issuer's costs were materially affected by the pandemic. The regulatory regime allows for the recovery of allowed costs in full over the long term and therefore revenue shortfalls in the current year will be recovered by the Issuer in future years. In addition, the Issuer has reviewed its liquidity levels and has concluded that these remain sufficient. The Issuer has access to long-term financing from a range of sources including the sterling bond market.

Pensions

The Issuer contributes to two pension schemes, which are operated by Northern Electric plc on its behalf. The pension schemes are:

- The Northern Powergrid Group of the Electricity Supply Pension Scheme (the "**DB Scheme**"); and
- The Northern Powergrid Pension Scheme (the "**DC Scheme**").

The DC Scheme was introduced for new employees of the Northern Powergrid Group from July 1997 and is a money purchase arrangement.

The DB Scheme is a defined benefit scheme for directors and employees, which provides pension and other related benefits based on final pensionable pay. The DB Scheme was closed to staff commencing employment on or after 23 July 1997, but members who joined before this date continue to build up future pension benefits. The DB Scheme is administered by a board of trustees which is legally separate from the Issuer and the assets are held in a separate trustee-administered fund.

The last approved actuarial valuation of the DB Scheme was carried out by the DB Scheme Trustees' actuarial advisors, Aon Hewitt, as of 31 March 2019. Such valuations are required by law to take place at intervals of no more than three years. The total market value of the assets of the DB Scheme at the date of that actuarial valuation was £1,622.4m. The valuation showed that the value of the assets represented 93% of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £116.3m. The accrued benefits include all benefits for pensioners and other members, as well as benefits based on service completed to date for active members, and allows for an estimate of future salary increases.

Agreement was reached in September 2020 with the DB Scheme Trustees to repair the total funding deficit over the period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as of 31 March 2019 being borne out in practice. In determining the deficit contributions, it was agreed to reflect a partial allowance of £31m of the deterioration in the funding position due to market movements since the valuation date over the period to 30 April 2020. Pension deficit funding contributions are considered in the price control settlement and allowance for pension deficit funding is included within the Issuer's allowed revenues.

Agreed Schedule of Contributions to recover the total deficit		
1 April 2019 to 31 March 2021	£29.3m p.a. (paid monthly)	(£18.7m is borne by the Issuer)
1 April 2021 to 31 March 2023	£29.3m p.a. (paid annually in Nov)	(£18.7m is borne by the Issuer)
1 April 2023 to 31 March 2025	£14.1m p.a. (paid annually in Nov)	(£ 9.0m is borne by the Issuer)

The contributions above that are payable from 1 April 2020 onwards are shown in 2019/20 prices and will be altered on 1 April 2020 and on each 1 April thereafter in line with changes in RPI. The DB Scheme has a mechanism that will allow deficit contributions to be reduced or fully suspended if the funding level improves faster than expected before 2025. An assessment is made each September, from 2021, to determine the level of contributions for that DB Scheme year. The mechanism will be reviewed as part of the next valuation due on 31 March 2022.

Under the electricity regulatory framework, the deficit repair payments relating to regulated distribution businesses are treated as pass-through for pre-2010 liabilities and for post-2010 these are treated as total employment costs which are subject to efficiency reviews.

Similarly, cash contributions payable in respect of new benefit accrual in defined benefit pension schemes along with cash contributions payable to any defined contribution arrangements will be benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient.

Ofgem performs regular efficiency reviews of the DB Scheme and the deficit contributions payable to defined benefit pension schemes. If Ofgem deems that any cash contributions have not been efficiently incurred, it may restrict the amount that can be recovered from customers in the future. Following its review of the DB Scheme in 2020, Ofgem confirmed that the established deficit would continue to be funded through the price control mechanism.

The DB Scheme is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual companies within the Northern Powergrid Group and accordingly the Issuer accounts for the DB Scheme as if it were a defined contribution scheme. The Issuer does not provide any other post-retirement benefits to members of the DB Scheme.

Directors of the Issuer

The Issuer is managed by a Board of Directors comprising the following individuals:

Name	Position
T.H. France	General Counsel, Northern Powergrid
P.A. Jones	President and Chief Executive Officer, Northern Powergrid
A.J. Maclellan	Commercial Director, Northern Powergrid
A.R. Marshall	Non-Executive Director
P.C. Taylor	Non-Executive Director

The business address of each of the Directors is Lloyds Court, 78 Grey Street, Newcastle Upon Tyne, NE1 6AF. No Director has any actual or potential conflict of interest between their duties to the Issuer and their private interests and/or other duties. None of the Directors performs any activities outside of the Issuer which are significant with respect to the Issuer.

TAXATION

UK Taxation

The following is a summary of the Issuer's understanding of current law and practice in the UK relating to the taxation treatment of the Bonds as at the date of this Prospectus. This is subject to any change in law or practice that may occur after such date and which may occur without notice and in some cases retrospectively. It does not purport to be a complete analysis of all UK tax considerations relating to the Bonds and is a general guide and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. It relates only to the position of persons who are the absolute beneficial owners of the Bonds. Some aspects do not apply to certain classes of taxpayer (such as collective investment schemes, financial traders or dealers or persons who are connected with the Issuer). Prospective Bondholders who may be subject to tax in jurisdictions other than the UK or who may be unsure as to their tax position should seek their own professional advice. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the UK.

Payment of Interest on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of UK income tax provided that the Bonds are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**") for the purposes of section 987 of the Act or admitted to trading on a "multilateral trading facility" operated by a regulated recognised stock exchange within the meaning of section 987 of the Act. The London Stock Exchange is a recognised stock exchange. The Bonds will be treated as listed on the London Stock Exchange if they are included in the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of UK tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of UK income tax at the basic rate (currently 20 per cent), subject to such relief as may be available following a direction from HM Revenue and Customs pursuant to the provisions of any applicable double taxation treaty (a "**Treaty**") or to any other exemption which may apply.

The Bonds are issued at an issue price of less than 100 per cent of their principal amount. This discount element will not generally be subject to any UK withholding tax pursuant to the provisions outlined above, but may be subject to reporting requirements outlined below.

Any premium payable on a redemption of the Bonds may constitute a payment of interest. Payments of interest are subject to UK withholding tax provisions as outlined above and reporting requirements as outlined below.

Where interest has been paid under deduction of UK income tax, Bondholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in UK tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which

may prevail under any other law or which may be created by the Terms and Conditions or any related documentation.

HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the UK who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with tax authorities in other countries.

The above description of the UK tax position assumes that there will be no substitution of the Issuer, pursuant to Condition 16 (*Substitution*) of the Terms and Conditions or otherwise, and does not consider the tax consequences of any such substitution.

Certain other tax considerations

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article (5)(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

U.S. Foreign Account Tax Compliance Act Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "**FATCA**", a "foreign financial institution" (as defined by FATCA) 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. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the UK) 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. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, 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

Bonds, such withholding would not apply to foreign passthru payments made 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, and Bonds 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, in either case unless materially modified after such date (including by reason of a substitution of the Issuer). Bondholders should consult their own tax advisors regarding how these rules may apply to their investment in the Bonds.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc and RBC Europe Limited (together the "**Joint Lead Managers**") have, in a subscription agreement dated 30 March 2022 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

United States of America

The Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority or under any relevant securities laws of any state or other jurisdiction of the United States. The Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws.

Each Joint Lead Manager has agreed that it will not offer, sell or deliver the Bonds, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Bonds and the date of issue of the Bonds (the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. persons, and, at or prior to confirmation of sale of the Bonds, it will have sent to each distributor, dealer or other person to which it sells Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering of such Bonds) may violate the requirements of the Securities Act.

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

United Kingdom

Prohibition of Sales to UK Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Other regulatory restrictions

Each Joint Lead Manager has represented and agreed, *inter alia*, that:

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

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the EEA. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of 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.

General

Each of the Joint Lead Managers has acknowledged that no action has been taken by the Issuer or any Joint Lead Manager which would or is intended to permit a public offer of Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds in any country or jurisdiction where action for that purpose is required and neither this Prospectus nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will, to the best of its knowledge and belief, result in compliance with applicable laws and regulations.

GENERAL INFORMATION

1. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 14 March 2022.
2. It is expected that official listing will be granted on or about 1 April 2022 subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. The Issuer estimates that the total expenses related to the admission to trading of the Bonds will be approximately £6,000.
3. At the Closing Date, the yield on the Bonds will be 3.275 per cent per annum. The yield is calculated at the Closing Date on the basis of the issue price. It is not an indication of future yield.
4. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on the Issuer's financial position or profitability.
5. There has been no material adverse change in the prospects of the Issuer since 31 December 2020. There has been no significant change in the financial performance of the Issuer since 30 June 2021 to the date of this Prospectus. There has been no significant change in the financial position of the Issuer since 30 June 2021.
6. The auditors of the Issuer are Deloitte LLP, which is registered to carry out audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales, and which have audited, without qualification, the financial statements of the Issuer for the financial years ended 31 December 2019 and 31 December 2020. The address of Deloitte LLP is One Trinity Gardens, Broad Chare, Newcastle-upon-Tyne, NE1 2HF.
7. The financial information included in this Prospectus (other than the Issuer's audited annual financial statements for the years ended 31 December 2019 and 31 December 2020 which are incorporated by reference in this Prospectus) does not constitute the statutory accounts of the Issuer within the meaning of Section 435(1) and (2) of the Companies Act 2006 for any period presented. The auditors have made a report under Chapter 3 of Part 16 of the Companies Act 2006 on the statutory accounts of the Issuer for each of the years ended 31 December 2019 and 31 December 2020, which reports were unqualified and did not contain any statement as is described in Sections 498(2) or (3) of the Companies Act 2006. Statutory accounts of the Issuer have been delivered to the Registrar of Companies in England and Wales for each of the years ended 31 December 2019 and 31 December 2020.
8. Copies of the following documents may be inspected and collected during normal business hours at the offices of the Principal Paying Agent and on the website of the Issuer at <https://www.northernpowergrid.com/document-library/financial/financial-information-bond-documentation>:
 - (a) the up-to-date Memorandum and Articles of Association of the Issuer;
 - (b) the Paying Agency Agreement and the Trust Deed; and
 - (c) the audited financial statements of the Issuer for the years ended 31 December 2019 and 2020 and the unaudited financial statements of the Issuer for the six months ended 30 June 2021.

9. The Bonds and any Coupons appertaining thereto will bear a legend 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." The sections referred to in such legend provide that a United States person who holds a Bond or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

10. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Bonds is XS2461236759 and the Common Code is 246123675.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

11. Each of the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates in the ordinary course of business. They may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.
12. In this Prospectus, references to websites or uniform resource locators ("**URLs**") are inactive textual references. The contents of any such website or URL shall not form part of, or be deemed to be incorporated into, this Prospectus.
13. Save for the fees payable to the Joint Lead Managers, the Trustee and the Paying Agents, so far as the Issuer is aware, no person, natural or legal, involved in the issue of the Bonds has an interest that is material to the issue of the Bonds.
14. The legal entity identifier of the Issuer is 21380072EMKFDZSTLD28.

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REGISTERED OFFICE OF THE ISSUER

Northern Powergrid (Northeast) plc
Lloyds Court
78 Grey Street
Newcastle-upon-Tyne NE1 6AF

PRINCIPAL PAYING AGENT

HSBC Bank plc
Level 28
8 Canada Square
London E14 5HQ

TRUSTEE

HSBC Corporate Trustee Company (UK) Limited
8 Canada Square
London E14 5HQ

LEGAL ADVISERS

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

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

To the Issuer as to English law:

Herbert Smith Freehills LLP
Exchange House
Primrose Street
London EC2A 2EG

AUDITORS TO THE ISSUER

Deloitte LLP
One Trinity Gardens
Broad Chare
Newcastle-upon-Tyne NE1 2HF

JOINT LEAD MANAGERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

RBC Europe Limited
100 Bishopsgate
London EC2N 4AA