

PROSPECTUS



SSE plc

(incorporated in Scotland, with limited liability, registered number SC117119)

Scottish Hydro Electric Power Distribution plc

(incorporated in Scotland, with limited liability, registered number SC213460)

Scottish Hydro Electric Transmission plc

(incorporated in Scotland, with limited liability, registered number SC213461)

Southern Electric Power Distribution plc

(incorporated in England and Wales, with limited liability, registered number 04094290)

€10,000,000,000

Euro Medium Term Note Programme

Under the Euro Medium Term Note Programme described in this Prospectus (the “**Programme**”), SSE plc (“**SSE**”), Scottish Hydro Electric Power Distribution plc (“**SHEPD**”), Scottish Hydro Electric Transmission plc (“**SHE Transmission**”), and Southern Electric Power Distribution plc (“**SEPD**”) (each an “**Issuer**” and together, the “**Issuers**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the “**Notes**”). References in this Prospectus to the “**Issuer**” or the “**relevant Issuer**” when used in relation to a particular Tranche or Series (each as defined in “**Overview of the Programme — Method of Issue**”) are to the Issuer of such Tranche or Series, as the case may be, of Notes. The aggregate nominal amount of Notes outstanding under the Programme will not at any time exceed €10,000,000,000 (or the equivalent in other currencies).

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (“**FSMA**”) (the “**UK Listing Authority**”) for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Each Series of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a “**temporary Global Note**”) or a permanent global note in bearer form (each a “**permanent Global Note**”). Notes in registered form will be represented by registered certificates (each a “**Certificate**”), one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates. If the Global Notes are stated in the applicable Final Terms to be issued in new global note (“**New Global Note**” or “**NGN**”) form they will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the “**Common Safekeeper**”) for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”).

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), 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 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Global Notes which are not issued in NGN form (“**Classic Global Notes**” or “**CGNs**”) and Certificates will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the “**Common Depositary**”).

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

The Programme has been rated A3 by Moody’s Investors Service Ltd. (“**Moody’s**”) and A- by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”). Each of Moody’s and Standard & Poor’s is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the “**CRA Regulation**”).

Tranches of Notes to be issued under the Programme will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme nor will it necessarily be the same as the rating assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

Arranger for the Programme

NatWest Markets

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.
BNP PARIBAS
MUFG
National Australia Bank Limited
RBC Capital Markets

Barclays
Lloyds Bank
Morgan Stanley
NatWest Markets
Santander Global Corporate Banking

Dated 25 August 2017

*This document comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to SSE and SSE and its subsidiaries (including SHEPD, SHE Transmission and SEPD) taken as a whole (together, the “**SSE Group**”) (the “**SSE Prospectus**”) which, according to the particular nature of SSE and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of SSE.*

*With the exception of the information contained in the sections entitled “Description of the Issuers — SSE plc”, “Description of the Issuers — Scottish Hydro Electric Transmission plc”, “Description of the Issuers — Southern Electric Power Distribution plc” and “Description of the Issuers — the SSE Group”, the information contained in the documents referred to in paragraphs (i), (iii) and (iv) of the section entitled “Documents Incorporated by Reference” and the information contained in paragraphs 2(a), (c) and (d) relating to the consents, approvals and authorisations in connection with the update of the Programme of SSE, SHE Transmission and SEPD, 3(a) and (b) relating to the significant change statement of SSE, SHE Transmission and SEPD, 4(a) and (b) relating to the material adverse change statement of SSE, SHE Transmission and SEPD and 5(a) and (b) relating to the litigation statement of SSE, SHE Transmission and SEPD, in each case of the section entitled “General Information”, this document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive as amended and for the purpose of giving information with regard to SHEPD (the “**SHEPD Prospectus**”) which, according to the particular nature of SHEPD and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of SHEPD.*

*With the exception of the information contained in the sections entitled “Description of the Issuers — SSE plc”, “Description of the Issuers — Scottish Hydro Electric Power Distribution plc”, “Description of the Issuers — Southern Electric Power Distribution plc” and “Description of the Issuers — the SSE Group”, the information contained in the documents referred to in paragraphs (i), (ii) and (iv) to (vii) (inclusive) of the section entitled “Documents Incorporated by Reference” and the information contained in paragraphs 2(a), (b) and (d) relating to the consents, approvals and authorisations in connection with the update of the Programme of SSE, SHEPD and SEPD, 3(a) and (b) relating to the significant change statement of SSE, SHEPD and SEPD, 4(a) and (b) relating to the material adverse change statement of SSE, SHEPD and SEPD and 5(a) and (b) relating to the litigation statement of SSE, SHEPD and SEPD, in each case of the section entitled “General Information”, this document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive as amended and for the purpose of giving information with regard to SHE Transmission (the “**SHE Transmission Prospectus**”) which, according to the particular nature of SHE Transmission and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of SHE Transmission.*

*With the exception of the information contained in the sections entitled “Description of the Issuers — SSE plc”, “Description of the Issuers — Scottish Hydro Electric Power Distribution plc”, “Description of the Issuers — Scottish Hydro Electric Transmission plc” and “Description of the Issuer — the SSE Group”, the information contained in the documents referred to in paragraphs (i), (ii) and (iii) of the section entitled “Documents Incorporated by Reference” and the information contained in paragraphs 2(a), (b) and (c) relating to the consents, approvals and authorisations in connection with the update of the Programme of SSE, SHEPD and SHE Transmission, 3(a) and (b) relating to the significant change statement of SSE, SHEPD and SHE Transmission, 4(a) and (b) relating to the material adverse change statement of SSE, SHEPD and SHE Transmission and 5(a) and (b) relating to the litigation statement of SSE, SHEPD and SHE Transmission, in each case of the section entitled “General Information”, this document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive as amended and for the purpose of giving information with regard to SEPD (the “**SEPD Prospectus**”) and together with the SSE Prospectus, the SHEPD Prospectus and the SHE Transmission Prospectus, the “**Prospectus**”) which, according to the particular nature of SEPD and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of SEPD.*

SSE accepts responsibility for the information contained in the SSE Prospectus and the Final Terms for each tranche of Notes issued by SSE. To the best of the knowledge of SSE (having taken all reasonable care to ensure that such is the case) the information contained in the SSE Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

SHE Transmission accepts responsibility for the information contained in the SHE Transmission Prospectus and the Final Terms for each Tranche of Notes issued by SHE Transmission. To the best of the knowledge of SHE Transmission (having taken all reasonable care to ensure that such is the case) the information contained in the SHE Transmission Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

SHEPD accepts responsibility for the information contained in the SHEPD Prospectus and the Final Terms for each Tranche of Notes issued by SHEPD. To the best of the knowledge of SHEPD (having taken all reasonable care to ensure that such is the case) the information contained in the SHEPD Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

SEPD accepts responsibility for the information contained in the SEPD Prospectus and the Final Terms for each Tranche of Notes issued by SEPD. To the best of the knowledge of SEPD (having taken all reasonable care to ensure that such is the case) the information contained in the SEPD Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any Issuer or any of the Dealers or the Arranger (as defined in “Overview of the Programme”). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of any Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of any Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The minimum specified denomination of the Notes issued under this Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

*The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by each Issuer, the Dealers and the Arranger to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933 as amended (the “**Securities Act**”), and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Subscription and Sale”.*

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuers, the Arranger or the Dealers to subscribe for, or purchase, any Notes.

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuers or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements should be considered as a recommendation by any of the Issuers, the Arranger

or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of any Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

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

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the relevant Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;*
- (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 Notes 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 relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;*
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial 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.*

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

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

consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In this Prospectus, the SSE Group presents certain alternative financial measures of performance which are not recognised by IFRS. These measures may not be comparable to similarly titled measures used by other companies and are not measurements under IFRS or any other body of generally accepted accounting principles, and thus should not be considered substitutes for the information contained in the SSE Group's financial statements. Where appropriate, the relevance and calculation of these measures has been explained in the financial statements of the SSE Group.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “euro”, “Euro” and “€” are to the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended, references to “£”, “Sterling”, “pounds” and “pence” are to the lawful currency of the United Kingdom, references to “\$” and “U.S. dollars” are to the lawful currency of the United States of America and references to “¥”, “yen” and “JPY” are to the lawful currency of Japan.

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents:

- (i) the audited consolidated financial statements of SSE for the financial years ended 31 March 2016 (included on pages 120 to 208 of the 2016 Annual Report of SSE) and 2017 (included on pages 101 to 202 of the 2017 Annual Report of SSE), respectively,
- (ii) the audited financial statements of SHEPD for the financial years ended 31 March 2016 (included on pages 18 to 43 of the 2016 Statutory Accounts of SHEPD) and 2017 (included on pages 17 to 34 of the 2017 Statutory Accounts of SHEPD), respectively,
- (iii) the audited financial statements of SHE Transmission for the financial years ended 31 March 2016 (included on pages 17 to 40 of the 2016 Statutory Accounts) and 2017 (included on pages 17 to 34 of the 2017 Statutory Accounts), respectively,
- (iv) the audited financial statements of SEPD for the financial years ended 31 March 2016 (included on pages 17 to 41 of the 2016 Statutory Accounts of SEPD) and 2017 (included on pages 17 to 32 of the 2017 Statutory Accounts of SEPD), respectively, together, in each case, with the audit report thereon,
- (v) the section entitled “Terms and Conditions of the Notes” on pages 19 to 47 of the Prospectus dated 13 June 2008 relating to the Programme,
- (vi) the section entitled “Terms and Conditions of the Notes” on pages 18 to 50 of the Prospectus dated 10 July 2009 relating to the Programme,
- (vii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 17 September 2010 relating to the Programme,
- (viii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 16 September 2011 relating to the Programme,
- (ix) the section entitled “Terms and Conditions of the Notes” on pages 21 to 59 of the Prospectus dated 27 June 2012 relating to the Programme,
- (x) the section entitled “Terms and Conditions of the Notes” on pages 20 to 56 of the Prospectus dated 2 August 2013 relating to the Programme,
- (xi) the section entitled “Terms and Conditions of the Notes” on pages 22 to 59 of the Prospectus dated 31 July 2014 relating to the Programme, and
- (xii) the section entitled “Terms and Conditions of the Notes” on pages 23 to 61 of the Prospectus dated 23 July 2015 relating to the Programme.

Such documents have been published and filed with the Financial Conduct Authority. Such documents shall be incorporated in and form part of this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Where only certain parts of the documents referred to above are incorporated by reference in this Prospectus, the parts of the document which are not incorporated by reference are either not relevant for prospective investors in the Notes or the relevant information is included elsewhere in this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the relevant Issuer and viewed on the website of the Regulatory News Service operated by the

London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Websites included in the Prospectus are for information purposes only and do not form part of the Prospectus.

SUPPLEMENTARY PROSPECTUS

If at any time an Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the FSMA, such Issuer will prepare and make available a supplement to this Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Market, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

Each Issuer has given an undertaking to the Arranger and the Dealers that if at any time during the duration of the Programme there arises or is noted a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses and prospects of such Issuer and/or the rights attaching to the Notes to be issued by it, that Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of Notes to be issued by it.

RISK FACTORS

Each Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Issuers are not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuers believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Each Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the relevant Issuer may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons and no Issuer represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Each Issuer is a member of the SSE Group. Although certain of the factors described below will not apply directly to all Issuers as individual entities, all factors will affect the SSE Group as a whole, and each Issuer may in turn be affected by matters affecting the SSE Group.

Factors that may affect the relevant Issuer's ability to fulfil its obligations under or in connection with the Notes

Industry Risk

The SSE Group is divided into three principal business segments: producing, generating and trading electricity and gas (“**Wholesale**”), transmitting and distributing electricity (“**Networks**”) and supplying electricity, gas and related services to homes and businesses (“**Retail**”, which includes “**Enterprise**”). Each business division has a distinct risk profile. For example, Networks is heavily regulated and is characterised by stable, inflation linked cashflows, whereas the Wholesale business is heavily exposed to risks relating to the energy and commodities market. Retail is particularly affected by affordability, transformation and political risks, while Enterprise is exposed to the risks associated with rapid growth in a highly competitive marketplace.

Although SSE has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely. In determining its appetite for specific risks, the Board of directors of the Issuer (the “**Board**”) is guided by three key principles:

- Risks should be consistent with SSE's strategy, financial objectives and core values. For instance, safety is SSE's number one value and it has no appetite for risks brought on by unsafe activities;
- Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence; and
- Risks should be actively controlled and monitored through the appropriate allocation of management and other resources.

The Board has overall responsibility for determining the nature and extent of the SSE Group's exposure to risk, as well as ensuring that risks are managed effectively across the SSE Group.

Regulatory Risk

Licensing regime

The electricity and gas distribution and electricity transmission networks operations, the electricity generation operations and the gas and electricity supply operations of the SSE Group are subject to regulation and licensing requirements by the Gas and Electricity Markets Authority (the “**Authority**”). In addition, the electricity and gas distribution networks, as well as electricity transmission, are subject to direct price regulation by the Authority.

Decisions regarding, for example, the levels of permitted revenues, licence renewals, modifications to the terms and conditions of licences in issue, and constraints on business development opportunities which may be taken by the Authority may all potentially adversely impact the operations and financial position of the SSE Group. Additionally, failure to operate the networks properly could lead to compensation payments or penalties, as could any failure to make capital expenditure in line with agreed programmes that in turn leads to deterioration of the networks.

In particular, there can be no assurance that future networks' price controls will permit the generation of sufficient revenues to enable the Issuers to meet their payment obligations under the Notes, and there can also be no assurance that net operating revenues generated by the SSE Group will be sufficient to enable the Issuers to meet such payment obligations.

Any failure by any holder of a licence within the SSE Group to comply with the terms of its licence may lead to the making of an enforcement order by The Office of Gas and Electricity Markets (“**OFGEM**”) that could have a material adverse impact on the relevant Issuer and/or the SSE Group.

Enforcement Framework

OFGEM completed a review of its enforcement policies in 2014. Upon completion of the review, OFGEM introduced an enforcement board and an independent enforcement panel to deliver credible deterrence for companies with visible and meaningful consequences where they do not comply. Since then, the level of financial penalties issued by OFGEM has noticeably increased from levels seen in previous years. For example, in April 2016, ScottishPower was required to pay £18 million in respect of customer service failings. OFGEM typically allows companies to make a redress payment to charity in lieu of a traditional penalty payment. In practice this is agreed through negotiated settlement, though OFGEM has powers to, where it is appropriate, make a customer redress order should redress not be agreed in enforcement cases. OFGEM will shortly be appointing a third party redress administrator which will be tasked with allocating, managing and monitoring voluntary redress payments in future. At present, this aspect of the redress process is being managed by suppliers directly.

OFGEM has noted that it will be undertaking a review of its enforcement guidelines later this year, though we are not expecting any fundamental changes to the operation of the current regime.

Retail Regulation

The UK Competition and Markets Authority (the “**CMA**”) published its final report on its investigation into the UK energy market on 24 June 2016, which set out proposals for a substantive package for customers. In December 2016, the CMA published a number of final orders to give legal effect to the proposed remedies.

The CMA has published the following orders:

- The Energy Market Investigation (Electricity Transmission Losses) Order 2016
- The Energy Market Investigation (Prepayment Charge Restriction) Order 2016
- The Energy Market Investigation (Restricted Meters) Order 2016
- The Energy Market Investigation (Microbusinesses) Order 2016
- The Energy Market Investigation (Gas Settlement) Order 2016
- The Energy Market Investigation (ECOES/DES) Order 2016
- The Energy Market Investigation (Database) Order 2016
- The Energy Market Investigation (Gas Tariff Codes) Undertakings 2016

OFGEM published a high-level implementation strategy detailing how it intends to progress the remedies allocated to OFGEM for implementation. OFGEM has directed amendments to the licence conditions which will alter the

retail market with simpler tariff choices rules, taking account of the CMA recommendations. This has resulted in the removal of a number of licence conditions from the licence, including the “four tariff cap” and the restrictions on bundling energy tariffs with other products and services. In addition, OFGEM effected a new licence condition (“**SLC 32A**”) giving it the power, if necessary, to direct suppliers to test consumer engagement measures.

In relation to the CMA remedies, OFGEM has also consulted on:

- a review of the Confidence Code;
- changes to implement the CMA recommendations in relation to industry code governance; and
- a new approach to financial reporting under the Consolidated Segmental Statements.

An important remedy to note is the prepayment charge restriction (or prepayment price cap). From 1 April 2017, the amount suppliers can charge a domestic prepayment customer has been subject to a transitional cap, which will be set by OFGEM in accordance with the provisions in the Energy Market Investigation (Prepayment Charge Restriction) Order 2016. This will limit the margin that suppliers can charge customers who pay through prepayment meters. The pre-payment meter (“**PPM**”) price cap, which will be transitional and in force from 2017-2020, will apply to all PPM customers with either ‘dumb’ meters or SMETS1. The price cap will not apply to customers with SMETS2 smart meters.

A significant level of resource and investment has been deployed in order to implement the proposed remedies within the directed timeframes and to customers’ satisfaction. The Smart Meter Programme, Midata, Project Nexus and the faster switching programme mean that there is an unprecedented pipeline of technological change placing real constraints on licensed suppliers’ IT systems. A year after the Energy Market Investigation Final Report was published, the programme of delivery is currently progressing satisfactorily and has not faced any significant setbacks.

The topic of retail price regulation has remained controversial, however, with a continuing threat of further intervention. The Government referred to retail price regulation in this year’s Queen’s Speech, which noted that the Government intended to bring forward measures to ensure fairer markets for consumers and to reduce energy bills. On 21 June 2017, the Secretary of State wrote to OFGEM to request “advice” as to what the regulator might do to address the issues in the market. On 3 July 2017, OFGEM responded to note that it would look at options including the potential extension of the PPM safeguard cap to a wider group of vulnerable customers. However, at present it is not clear what any final package of intervention on price might look like in practice.

Overall, OFGEM is looking at introducing a new approach to regulation that will be reliant on principles, rather than prescriptive rules. This piece of work, referred to as the “Future of Retail Regulation” project, will examine the current rulebook with a view to introducing additional overarching principles whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation. On 23rd June 2017, OFGEM published its final statutory consultation on new principles governing sales and marketing (SLC25), whilst at the same time removing some of the prescriptive requirements in this area. On 22nd June 2017, OFGEM published its consultation on amending the existing Standards of Conduct, which is designed to widen the scope of the principles, and is also consulting on a new principle regarding the treatment of vulnerable customers. Further refinement to OFGEM’s approach to principles-based regulation is expected through the course of 2017 and 2018.

However, the topic of retail price regulation has remained controversial, with a continuing threat of further intervention. The Government included reference to this in the 2017 Queen’s Speech, which noted that the Government intended to bring forward measures to ensure fairer markets for consumers and to reduce energy bills. On 21 June 2017, the Secretary of State wrote to OFGEM to request “advice” as to what the regulator might do to address the issues in the market. On 3 July 2017, OFGEM responded that it would consider various options, including the potential extension of the PPM safeguard cap to a wider group of vulnerable customers. At present, however, it is unclear what a final proposal on intervention by OFGEM on price may look like in practice.

Landscape for licence modification appeals

In March 2015, British Gas Trading Limited (“**BGT**”) lodged an appeal with the CMA on the RIIO-ED1 final determination that could have affected the five distribution network operator groups, including Scottish and Southern Energy Power Distribution (“**SSEPD**”), a subsidiary of the SSE Group (at the same time, Northern Powergrid (“**NPg**”) also lodged an appeal seeking to enhance its own price control settlement). The CMA published its Final Determination on 29 September 2015. Of the six original BGT grounds for appeal, only one was partially upheld. The decision did not materially reduce the forecast RIIO-ED1 return, nor, as a consequence, did it reduce the return below the target set by SSEPD and on which the price control settlements were accepted. Whilst the impact of the appeal on SSEPD was largely benign, the raising of the appeal has influenced the regulatory landscape and the way that future price controls will be set.

Political, Legal and Compliance Risks

The markets in which the SSE Group operates are subject to a high degree of regulatory and legislative intervention at both domestic and EU level. This legal and compliance framework, which can change explicitly with the introduction of new or revised legislation or implicitly due to evolving interpretation and legal precedent, could adversely impact the SSE Group’s market position, financial position or competitiveness.

In addition, under the European Union Referendum Act 2015, a referendum on the UK’s membership of the EU was held on 23 June 2016. Under the referendum, the UK voted by a majority to withdraw from the EU. Such a withdrawal can however only be formally implemented by a notification to the EU under Article 50 of the Treaty on European Union (previously known as the Treaty of Maastricht). This notification was made on 29 March 2017. There will now follow a lengthy period of negotiation (prescribed under EU law to be a maximum of two years) between the UK and the EU on the terms and conditions of such withdrawal. The uncertainty surrounding the implementation and effect of such withdrawal, including the commencement of the exit negotiation period, the terms and conditions of such exit, the legal and regulatory framework that would apply to the UK and its relationship with the remaining members of the EU (including, in relation to trade) during a withdrawal process and after any such withdrawal is effected, has caused and is likely to cause increased economic volatility and market uncertainty globally. Furthermore, global markets and economic conditions have been negatively impacted in recent years by the banking and sovereign debt crisis in the EU and globally. In particular, concerns have been raised with respect to continuing economic, monetary and political conditions in the region comprised of the member states of the EU that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended. The market’s anticipation of these (potential) impacts (including the occurrence of the UK’s withdrawal from the EU) could adversely affect the business, financial condition and liquidity of the SSE Group.

The Government enacted legislation to begin a major process of electricity market reform in Great Britain through the Energy Act 2013 (the “**Energy Act**”). This included the introduction of new long term contracts to support low carbon generation as well as a capacity mechanism to ensure resource adequacy. In particular, the Energy Act provides for consumer protection, domestic tariffs and licensable activities. The Government is continuing the electricity market reform programme. There can be no assurance that these on-going reforms will not have a material adverse impact on the SSE Group and its revenues.

Plant and Network Performance

The SSE Group owns and operates a diverse range of complex generating plants, gas storage facilities, and extensive energy networks. Poor performance or failure of these assets could occur as a result of accidental or deliberate damage, component failure, lack of appropriate maintenance or poor management. Any such substandard performance could result in lost revenues and may lead to supply interruptions, adverse publicity, regulatory action or damage to the reputation of the SSE Group.

Commodity Price Risk, Procurement Risk and Security of Supply

The SSE Group is exposed to fluctuations in the physical volume and price of certain commodities, through (i) its requirement to match volumes of purchased gas and electricity with customer demand; and (ii) exposures arising due to long-term investment in generation and Exploration and Production (“E&P”) assets driven by the cost of fuel and other commodities required for generation, and through revenues realised from these assets.

A significant proportion of the SSE Group’s profitability, including return on investment in power generation assets as well as the ability to price competitively in the retail market, is dependent on the successful management of these exposures. A sub-optimal trading strategy could lead to significant financial loss, loss of customers and increased political scrutiny.

The markets for these commodities are driven by global supply and demand, which is itself influenced by a number of complexities including geopolitical events, global economic growth, weather and technology. Global commodity prices make up a significant part of the energy cost to the customer. Increasing commodity prices affect the overall affordability of energy and can have an impact on demand and customers’ ability to pay.

Although the SSE Group routinely enters into long-term contracts for the supply of key commodities to protect its commercial position, significant price fluctuations and/or failure to secure key materials and/or maintain adequate supply chains and strategic alliances could have a significant adverse effect on its operations and/or financial position of the SSE Group.

Energy Affordability

Affordability of energy is vitally important but must be balanced against the need to decarbonise and ensure the reliability of Britain’s energy system. The cost of vital government programmes designed to achieve these aims by upgrading Britain’s ageing energy infrastructure are predominantly levied against electricity customers; as a result, SSE regrettably had to take the difficult decision to increase electricity prices by an average of 14.9 per cent., or 6.9 per cent. across a typical dual fuel bill, from 28 April 2017. However, this was SSE’s first price increase for three and a half years and, with gas prices held at previous levels, the typical dual fuel bill remains cheaper than in November 2013. Without this increase, SSE would have been supplying electricity at a financial loss.

However, SSE recognises the impact higher energy costs can have on customers, particularly the most vulnerable. With that in mind it is continuing work to deliver efficiencies across its business to mitigate the impact of rising costs and launched a new £5 million fund providing additional financial support for those who need it most, particularly those who rely on electricity for their heating. An update on progress in administering this fund will be provided in SSE’s interim results statement for 2017/18.

If the cost of conventional energy production does not remain competitive, there is likely to be increasing pressure from alternative sources of energy as well as public and political pressure. This could have a significant effect on the long term performance of all areas of the business with knock on effects to both demand and the customers’ ability to pay and by extension could have a significant adverse effect on the operations and/or financial position of the SSE Group.

As at 31 March 2017, SSE’s aged debt – customer accounts that are at least six months in arrears – was £80.2 million, compared with £103.2 million as at 31 March 2016.

Competition and Market Risks

The ability of the SSE Group to maintain and grow its business and profits could be adversely affected by the actions of its competitors and the general competitive landscape of the markets in which it operates. Further consolidation within the utilities market may also affect the SSE Group’s competitive position, either directly or indirectly. Additionally, changes in macroeconomic conditions could negatively impact on the SSE Group as a result of both reduced levels of business activity and potential increases in bad debt write-offs.

Health and Safety

Although safety is one of the SSE Group's core values, by the nature of its operations, SSE faces a number of significant safety risks, in particular relating to process safety. A major incident at one of SSE's hydro, gas storage or E&P assets could have a material adverse impact on employees, contractors, members of the public, the environment and property.

The SSE Group has crisis management and business continuity plans in place, which are designed for the management of, and recovery from, significant safety or environmental events. For offshore E&P assets where SSE is not the operator, there are a number of assurance measures in place to ensure that the proven and approved operator partners maintain and adopt high standards for their safe management and operation. This includes regular engagement across all aspects of the operation, with an emphasis on safety and technical assurance audits and verification using both internal and third party resources.

Failure to comply with legislation or the occurrence of a preventable incident that results in injury, death or environmental damage could result in prosecution. Any such incident could therefore have a material adverse effect on the SSE Group's reputation and financial position.

Quality Customer Service

On 29 July 2016 OFGEM announced that it was investigating whether SSE has complied with a number of requirements of its electricity and gas supply licences following concerns that SSE might not have been treating its customers fairly when switching them to PPMs. The investigation does not mean that a company has breached licence conditions or other obligations and SSE is cooperating fully with OFGEM. However, any failure to maintain quality customer services levels can have a material adverse effect on the SSE Group's reputation and financial position as well as the increased risk of regulatory scrutiny which could result in fines from OFGEM.

Strategic Risk

The SSE Group's strategic focus is the efficient operation of, and investment in, a balanced range of energy businesses to support annual dividend growth. The SSE Group strives to be a leading provider of energy and related services within an industry where innovation, de-carbonisation and competition are leading to continual technological advancements and changes in customer expectations and options. To continue to achieve this, a number of strategic change programmes are under way. It is vital that the SSE Group successfully delivers these to meet the current and future needs of customers in the most efficient way possible. Failure to do so and to identify step changes in the industry sectors and react appropriately could adversely affect the SSE Group's financial position, market position or reputation.

Financial Risks

The SSE Group is exposed to a variety of financial risks, including interest rate, foreign exchange, counterparty credit, liquidity and taxation. Although these risks are wherever possible monitored, reported on and managed within a strict framework of controls and procedures, adverse market, political or legislative developments or a failure to meet the SSE Group funding requirements and obligations could have a material adverse effect on the SSE Group's financial position.

Environmental Risks

The SSE Group's businesses are increasingly influenced by global climate change. Not adhering to current or future EU and UK legislation aimed at addressing climate change, including amendment to the current carbon emission allowance regime or renewable obligation certificate regime in the UK, could adversely impact on the SSE Group's operations or commercial position. Climate change induced changes to the environment, such as increased frequency of extreme weather, may pose operational challenges. Customer response to climate change also presents risks to the SSE Group, including risk to sales volumes due to growing customer demand for low-carbon products and services. Failure to respond adequately to the risks posed by climate change may represent added reputational risk.

The SSE Group's activities are subject to a broad range of environmental laws and regulations, many of which require advance approval in the form of permits, licences or other forms of formal authorisation. Failure to secure and adhere to the terms of all such necessary requirements, or indeed damage to the environment caused by the SSE Group's business activities, could result in legal proceedings or other measures being taken against members of the SSE Group.

Energy Volumetric Risk and Other Weather Related Risks

Changes in temperature can affect demand for power and gas and consequently impact the price of these commodities and the number of units distributed. Additionally rainfall and/or snow melt conditions impact on hydroelectric generation output, and wind conditions impact on wind generation output. Extreme weather conditions may result in network damage, which in turn is likely to result in disruption to electricity supply.

All of the above have the potential to adversely affect the SSE Group earnings, whilst supply interruptions could result in adverse publicity, negative customer perception and possible regulatory action.

Infrastructure Failure

The SSE Group's electricity networks are part of the UK's critical infrastructure assets and as such are central to the functioning of the economy. Additionally, the SSE Group is reliant on a number of key IT systems to support its ongoing operations. A loss of these systems could be caused by malicious cyber attack, software or hardware issues, inadequate investment in maintenance or by poor operational performance. Any failure in these systems could result in lost revenues and may lead to supply interruptions, adverse publicity, regulatory action or damage to the reputation of the SSE Group.

Nothing in this risk factor should be taken as implying that any of the Issuers or any of the other entities within the SSE Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Industry and Company Transformation

The energy sector is undergoing constant technological improvement and political and regulatory change. It is important that the SSE Group is able to stay at the forefront of the industry by identifying emerging trends, developing strategies to exploit competitive opportunities and question the status quo and striving for continuous improvement in all areas of activity. In retail markets, competitive pressure means a failure to keep up with fast-developing customer needs and new technologies could reduce the SSE Group's market share and adversely affect service levels to customers. The advent of smart metering and the changing needs of the customer require a reorganisation of people, processes and supporting systems. In the networks business, the SSE Group has proposed significant reductions in overall cost and improvements in the standard of service that customers can expect to receive. To achieve this, it needs to deliver major cost efficiencies and improvements in customer service. Longer term, any large-scale adoption of smaller-scale distributed (local) generation could result in increased pressure on revenues and overheads which could adversely affect return on investment.

In the UK generation market, it will be critical to understand and adopt the latest, most efficient technologies to maximise competitiveness for revenue support payments. An inability to do so could pose a threat to the SSE Group's capital investment plans and threaten its position in the market as a significant electricity generator.

The SSE Group's enterprise business was created to integrate expertise in contracting, lighting services, utility solutions, telecoms and business relationship management, forming a new standalone business-to-business arm of the SSE Group.

The projects to deliver these business transformations are large and complex. It is vital that the SSE Group successfully delivers these in order to give customers the services they require whilst maintaining an efficient cost in connection with the provision of such services. Failure to do this could result in falling sales and customer numbers due to a lack of price competitiveness and a poor reputation for service. Poor service standards would in turn impact on revenues through foregone incentive payments as well as damaging the SSE Group's relationship with customers, regulators and other key stakeholders.

These projects will draw on resources from across the SSE Group and poor management of these resources, poor integration or inadequate scoping of project requirements and benefits could impact on business as usual activities, increase project costs and adversely affect service standards.

Pension Funds Risk

The SSE Group has obligations in respect of three defined benefit pension schemes (including Southern Gas Networks) and currently, in aggregate, there is an actuarial deficit between the current value of the projected liabilities of these schemes and the value of the assets that they hold. The deficit level in such schemes can be affected by a number of factors including asset volatility, changes in bond yields, fluctuations in interest rates, inflation, and changes in the life expectancy of scheme members. Although the defined benefit pension schemes each have investment advisors in place who have developed road-maps with the intention of the schemes becoming fully funded, within 15 years, adverse changes in the valuation of assets and/or liabilities in the defined benefit schemes may occur due to both market movements and changes in the assumptions used to calculate the funding levels of such schemes. This in turn may result in the SSE Group being required to make higher ongoing contributions, and/or make deficit repair payments which could be material.

Recruitment and Retention of Staff

The SSE Group is reliant on the employment of competent and qualified staff in all areas of its business. Failure to attract or retain key staff could materially adversely affect SSE Group operations. The SSE Group undertakes a number of activities to ensure that it attracts and retains the right level of staff. This includes, planning and monitoring of all recruitment needs; analysis of regretted attrition; annual succession planning reviews; reviews of difficult to fill roles; and operation of a number of trainee programmes to produce effective, skilled staff. The SSE Group operates a number of training centres which allow upskilling and refresher training of employees. In addition, effective resource planning and succession planning are key activities to ensure identification of future potential talent which is critical in the successful execution of the SSE Group's strategy.

Major Projects Quality

The SSE Group continues to deliver its capital investment programme with a number of major construction and IT projects nearing completion and its single biggest construction project, the Caithness-Moray high voltage transmission link, is now underway. It is critical that these projects are delivered on time and on budget, supported by its Large Capital Projects Governance Framework. In addition, the SSE Group needs to ensure that projects are built to a high quality standard as they generally have an economic life of between 15 and 30 years and in many cases longer.

The SSE Group will typically manage the development process and organise the delivery of the project by third party contractors, taking a proactive oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, the SSE Group has experienced supplier failures in the past most notably in terms of quality control. Whilst contractual warranties will cover the faulty components, there is often a significant unrecoverable cost associated with these events in addition to potential impacts to the service the SSE Group can provide to customers. Added to this, any quality defects may not show up until sometime after the construction of an asset resulting in an expensive and disruptive process of recovery.

Geopolitical Risk

Russia is an important source of European gas supply, covering around 30 per cent. of European demand (including supply to the UK, the Netherlands, Germany, France, Spain, Italy and Belgium). Ukraine represents one of the major transit routes. The UK interconnection with continental Europe via BBL (the Balgzand Bacton Line) and Interconnector UK gas pipelines means that developments in the European gas market have a significant impact on gas prices in the UK. The ongoing conflict in the Ukraine creates uncertainty about the security of gas supply in Europe. Gas payment disputes arising between state-controlled companies in the Russian Federation and Ukraine also pose a key risk. Previous disputes over prices, payments and debt have led to gas supply interruptions of up to 18 days during the winters of 2005/2006, 2007/2008 and 2008/2009. Intensification of political tensions could lead to fresh disputes and to the curtailing of Russian gas supplies to Europe. This in turn would put pressure on

European gas prices. As a result of the increased interconnection of gas markets, the SSE Group is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, SSE operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, SSE's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, SSE ownership and operation of a balanced portfolio of thermal, wind and hydro generation assets seeks to reduce exposure to wider market and geopolitical risks.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

Risks related to the structure of a particular issue of Notes

Notes subject to optional redemption by an Issuer

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

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

With respect to the Clean-up Call Option by the Issuer (Condition 6(h)), there is no obligation on the Issuer to inform investors if and when the 80 per cent. threshold of the initial aggregate principal amount of a particular Series of Notes has been reached or is about to be reached, and the Issuer's right to redeem will exist notwithstanding that immediately prior to the serving of a notice in respect of the exercise of the Clean-up Call Option, the Notes may have been trading significantly above par, thus potentially resulting in a loss of capital invested.

RPI Linked Notes

The relevant Issuer may issue Notes with principal or interest determined by reference to the United Kingdom General Index of Retail Prices (for all items) as published by the Office for National Statistics (the "RPI"). Potential investors should be aware that: (i) the market price of such Notes may be volatile; (ii) they may receive no interest; (iii) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero; (iv) the RPI may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices; and (v) the timing of changes in the RPI may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the RPI, the greater the effect on yield. The historical experience of the RPI should not be viewed as an indication of the future performance during the term of any RPI Linked Notes. Accordingly, prospective investors should consult their own financial and legal advisers about the risks entailed by an investment in any RPI Linked Notes and the suitability of such Notes in light of their particular circumstances.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the relevant Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The relevant Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the relevant Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the relevant Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the relevant Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

Modification, waivers and substitution

The Terms and Conditions of the Notes (the “**Conditions**”) contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the relevant Issuer, in the circumstances described in Condition 12 of the Conditions.

Change of law

The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Bearer Notes where denominations involve integral multiples

In relation to any issue of Notes in bearer form which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that the Notes may be traded in amounts that are not integral multiples of such minimum Specified Denominations (as defined in the Conditions). In such a case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

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

Risks related to the market generally

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that

exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

In respect of any Notes issued with a specific use of proceeds, such as a Green Bond, there can be no assurance that such use of proceeds will be suitable for the specific investment criteria of an investor

The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply an amount equal to the net proceeds of the Issue of those Notes to Eligible Green Projects (as defined in "Use of Proceeds" and further described in SSE's Green Bond Framework (as amended and supplemented from time to time) (the "**Green Bond Framework**"). Prospective investors should have regard to the information set out in the relevant Final Terms regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular, no assurance is given by SSE that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Green Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by SSE) which may be made available in connection with the issue of any Notes and, in particular, with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by SSE or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated “green”, “environmental”, “sustainable” or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), or are included in any dedicated “green”, “environmental”, “sustainable” or other equivalently-labelled index or indices, no representation or assurance is given by SSE or any other person that such listing or admission, or inclusion in such index or indices, satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another and also the criteria for inclusion in such index or indices may vary from one index to another. Nor is any representation or assurance given or made by SSE or any other person that any such listing or admission to trading, or inclusion in any such index or indices, will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading, or inclusion in such index or indices, will be maintained during the life of the Notes.

While it is the intention of SSE to apply the proceeds of any Notes so specified for Eligible Green Projects in, or substantially in, the manner described in the relevant Final Terms, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Projects. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by SSE. Any such event or failure by SSE will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that SSE is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance or refinance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

OVERVIEW OF THE PROGRAMME

The following overview is qualified in its entirety by the remainder of this Prospectus and any decision to invest in Notes should be based on consideration of this Prospectus as a whole, including the documents incorporated by reference.

Issuers:	SSE plc Scottish Hydro Electric Power Distribution plc Scottish Hydro Electric Transmission plc Southern Electric Power Distribution plc
Description:	Euro Medium Term Note Programme
Size:	Up to €10,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger:	The Royal Bank of Scotland plc (trading as NatWest Markets)
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A. Banco Santander, S.A. Barclays Bank PLC BNP Paribas Lloyds Bank plc Morgan Stanley & Co. International plc MUFG Securities EMEA plc National Australia Bank Limited ABN 12 004 044 937 RBC Europe Limited The Royal Bank of Scotland plc (trading as NatWest Markets) The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “ Permanent Dealers ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee:	BNY Mellon Corporate Trustee Services Limited
Issuing and Paying Agent, Transfer Agent and Calculation Agent:	The Bank of New York Mellon, London Branch
Registrar, Paying Agent and Transfer Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “ Tranche ”) on the same or different issue dates. The specific terms of each Tranche will be completed in the final terms (the “ Final

Terms”).

Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Form of Notes:	The Notes may be issued in bearer form (“ Bearer Notes ”) or in registered form (“ Registered Notes ”) only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Overview of the Programme — Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “ Global Certificates ”.
Clearing Systems:	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, if the relevant Global Note is a NGN, the Global Note will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN, the Global Note representing Bearer Notes or the Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, any maturity between one month and 60 years.
Specified Denomination:	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount of such currency).
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each

Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or
- (ii) by reference to LIBOR or EURIBOR as adjusted for any applicable margin.

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes:

Zero Coupon Notes (as defined in “Terms and Conditions of the Notes”) may be issued at their nominal amount or at a discount to it and will not bear interest.

RPI Linked Notes:

Payments of principal in respect of RPI Linked Notes (as defined in “Terms and Conditions of the Notes”) or of interest in respect of RPI Linked Interest Notes will be calculated as specified in “Terms and Conditions of the Notes”.

Interest Periods and Interest Rates:

The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

Redemption:

The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

Optional Redemption:

The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.

Status of Notes:

The Notes will constitute unsubordinated and unsecured obligations of the relevant Issuer, all as described in “Terms and Conditions of the Notes — Status”.

Negative Pledge:

The Notes will contain a Negative Pledge, all as described in “Terms and Conditions of the Notes — Negative Pledge”.

Cross Acceleration:

The Notes will contain a Cross Acceleration, all as described in “Terms and Conditions of the Notes — Events of Default”.

Ratings:

Moody’s has rated the Programme ‘A3’ and Standard & Poor’s has rated the Programme ‘A-’. Each of Moody’s and Standard & Poor’s is established in the European Union and is registered under the CRA Regulation. Tranches of Notes will be rated or unrated.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Early Redemption:

Except as provided in “— Optional Redemption” above, Notes will be redeemable at the option of the relevant Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes — Redemption, Purchase and Options”.

Withholding Tax:

All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom, unless the withholding is required by law. In such event, the Issuer shall, subject to customary exceptions (including the ICMA Standard EU Tax exemption Tax Language), pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in “Terms and Conditions of the Notes — Taxation”.

Governing Law:

English.

Listing and Admission to Trading:

Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the Market and references to listing shall be construed accordingly.

Selling Restrictions:

The United States, the United Kingdom and Japan. See “Subscription and Sale”.

Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.

Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “**C Rules**”) or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions (the “Conditions” and each a “Condition”) that, subject to completion in accordance with the provisions of Part A of the relevant final terms (the “Final Terms”), shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. The full text of these Conditions together with the relevant provisions of Part A of the Final Terms shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in these Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

SSE plc (“SSE”), Scottish Hydro Electric Power Distribution plc (“SHEPD”), Scottish Hydro Electric Transmission plc (“SHE Transmission”) and Southern Electric Power Distribution plc (“SEPD”) (each an “Issuer” and together, the “Issuers”) have established a Euro Medium Term Note Programme (the “Programme”) for the issuance of notes (the “Notes”) in an aggregate principal amount outstanding at any time not exceeding the Programme Limit (as defined in the Trust Deed referred to below). The Notes are constituted by an Amended and Restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “Issue Date”), the “Trust Deed”) dated 25 August 2017 between the Issuers and BNY Mellon Corporate Trustee Services Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Amended and Restated Agency Agreement (as amended or supplemented as at the Issue Date, the “Agency Agreement”) dated 31 July 2014 has been entered into in relation to the Notes between the Issuers, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agent named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “Issuing and Paying Agent”, the “Paying Agents” (which expression shall include the Issuing and Paying Agent), the “Registrar”, the “Transfer Agents” (which expression shall include the Registrar) and the “Calculation Agent(s)”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

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

As used in these Conditions, “Tranche” means, in relation to a series of Notes, those Notes which are identical in all respects.

Any reference in these Conditions to a matter being “shown hereon” or “specified hereon” means as the same may be specified in the relevant Final Terms.

1 FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form (“Bearer Notes”) or in registered form (“Registered Notes”) in each case in the Specified Denomination(s) shown hereon provided that the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a RPI Linked Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

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

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

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

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 EXCHANGES OF NOTES AND TRANSFERS OF REGISTERED NOTES

- (a) **Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer’s or Noteholder’s option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same

terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such request for exchange, form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant request for exchange, form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Exchange Free of Charge:** Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3 STATUS

The Notes and the Coupons relating to them constitute direct, unconditional and (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4 NEGATIVE PLEDGE

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will ensure that no Relevant Indebtedness of the Issuer or any Relevant Subsidiary or of any other person and no guarantee by the Issuer or any Relevant Subsidiary of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each 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 Relevant Subsidiary unless the Issuer shall, before or at the same time as the creation of such Security Interest, take any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the Security Interest to the satisfaction of the Trustee; 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 Notes, 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 Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders,

save that the Issuer or any Relevant Subsidiary may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer or any Relevant Subsidiary in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Notes, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness has an initial maturity of not less than 20 years and is of a maximum aggregate amount outstanding at any time not exceeding the greater of £250,000,000 and 20 per cent., of the Capital and Reserves or (2) such Security Interest is provided in respect of a company becoming a Subsidiary of the Issuer after the date on which agreement is reached to issue the first Tranche of the Notes and where such Security Interest existed at the time that company becomes a Subsidiary of the Issuer (provided that such Security Interest was not created in contemplation of that company becoming a Subsidiary of the Issuer and the nominal amount secured at the time of that company becoming a Subsidiary of the Issuer is not subsequently increased).

5 INTEREST AND OTHER CALCULATIONS

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).
- (b) **Interest on Floating Rate Notes and RPI Linked Notes:**
 - (i) *Interest Payment Dates:* Each Floating Rate Note and RPI Linked Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
 - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:
 - (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment,
 - (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day,

- (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or
 - (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

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

- (x) the Floating Rate Option is as specified hereon
- (y) the Designated Maturity is a period specified hereon and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

- (y) if the Relevant Screen Page is not available or if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-

paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such rates were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the

Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

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

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

- (iv) *Rate of Interest for RPI Linked Notes*: The Rate of Interest in respect of RPI Linked Notes for each Interest Accrual Period shall be determined in the manner specified in Condition 7.
- (c) **Zero Coupon Notes**: Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Accrual of Interest**: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 9).
- (e) **Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding**:
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “**unit**” means the lowest amount of such currency that is available as legal tender in the country of such currency.

- (f) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Make-Whole Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 11, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (h) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.
- (i) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

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

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

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case **D₂** will be 30

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case **D₁** will be 30; and

“**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case **D₂** will be 30

- (vii) if “**Actual/Actual-ICMA**” is specified hereon,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such

Determination Period and (2) the number of Determination Periods normally ending in any year; and

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

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“Determination Date” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“EURIBOR” means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor).

“Euro-zone” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

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

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

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

beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

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

“**ISDA Definitions**” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.

“**LIBOR**” means, in respect of any specified currency and any specified period, the London inter-bank offered rate for that currency and period displayed on the appropriate page (being currently Reuters screen page LIBOR01 or LIBOR02) on the information service which publishes that rate.

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

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“**Reference Rate**” means the rate specified as such hereon.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified hereon.

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

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

- (j) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 REDEMPTION, PURCHASE AND OPTIONS

- (a) **Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) subject to adjustment in accordance with Condition 7 if Indexation is specified hereon.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, upon redemption of such Note pursuant to Condition 6(c), ¹[Condition 6(e)(ii)], ²[Condition 6(e)(iii)] or ²[Condition 6(e)(iv)] or upon it becoming due and payable as provided in Condition 11 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), ¹Condition 6(e)(ii), ²[Condition 6(e)(iii)] or ²[Condition 6(e)(iv)] or upon it becoming due and payable as provided in Condition 11 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

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

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), ¹[Condition 6(e)(ii)], ²[Condition 6(e)(iii)] or ²[Condition 6(e)(iv)] or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part on any Interest Payment Date (if this Note is either a Floating Rate Note or a RPI Linked Note) or at any time (if this Note is neither a Floating Rate Note nor a RPI Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue

¹ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

² Only applicable where SSE is the Issuer.

the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders and Couponholders and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective).

- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date (that is, if the Issuer Maturity Par Call is specified to be applicable hereon, more than 90 days prior to the Maturity Date). Any such redemption of Notes shall be at the Optional Redemption Amount specified hereon together with interest accrued to the date fixed for redemption, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

If Make-Whole Redemption is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Make-Whole Redemption Date (that is, if the Issuer Maturity Par Call is specified to be applicable hereon, more than 90 days prior to the Maturity Date). Any such redemption of Notes shall be at the Make-Whole Amount which shall be equal to the higher of the following, in each case together with interest accrued to (but excluding) the Make-Whole Redemption Date, and subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon: (a) 100 per cent. of the nominal amount of the Notes being redeemed; or (b) the price (as reported to the Issuer and the Calculation Agent by the Financial Adviser and expressed as a percentage) that provides for a Gross Redemption Yield on such Notes on the Reference Date equal (after adjusting for any difference in compounding frequency) to the Reference Bond Rate at the Specified Time on the Reference Date, plus the Redemption Margin (if any).

Where:

"Financial Adviser" means an investment banking, accountancy, appraisal or financial advisory firm with international standing that has (in the reasonable opinion of the Issuer) appropriate expertise relevant to the determination required to be made under this Condition 6(d) selected by the Issuer and approved by the Trustee.

"Gross Redemption Yield" means a yield expressed as a percentage and calculated by the Financial Adviser in accordance with generally accepted market practice.

"Redemption Margin" shall be as specified hereon.

"Reference Bond(s)" means, as at the Reference Date, a current on-the-run government security or securities having an actual or, where there is more than one Reference Bond, interpolated maturity comparable with the remaining term of the Notes that would be utilised in accordance with generally accepted market practice in pricing new issues of corporate debt securities denominated in the same

currency as the Notes and of a comparable maturity to the remaining term of the Notes (if the Notes were to remain outstanding to the Maturity Date), as determined by the Financial Adviser.

“Reference Bond Rate” means the actual or, where there is more than one Reference Bond, interpolated, yield per annum calculated by the Financial Adviser in accordance with generally accepted market practice by reference to the arithmetic mean of the middle market prices provided by three Reference Dealers for the Reference Bond(s) having an actual or interpolated maturity equal to the remaining term of the Notes (if the Notes were to remain outstanding to the Maturity Date).

“Reference Date” means the fifth London Business Day prior to the Make-Whole Redemption Date.

“Reference Dealer” means a bank selected by the relevant Issuer or its affiliates in consultation with the Financial Adviser which is (A) a primary government securities dealer, or (B) a market maker in pricing corporate bond issues.

“Specified Time” shall be as specified hereon.

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6(d) by the Financial Adviser, shall (in the absence of negligence, wilful default, manifest error or bad faith) be binding on the Issuer, the Calculation Agent and the Trustee, the Paying Agents and all Noteholders and Couponholders and (in the case of Registered Notes) the Registrar and the Transfer Agents and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Financial Adviser in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to the provisions of this Condition 6(d).

Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

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

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Noteholders:**

- (i) If General Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon, the **“Notice Period”**) redeem such Note on the Optional Redemption Date(s) at the Optional Redemption Amount specified hereon together with interest accrued to the date fixed for redemption, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (ii) This Condition 6(e)(ii) applies only where SHEPD, SHE Transmission or SEPD is the Issuer.

If Restructuring Event Put Option is specified hereon and if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial

to the interests of the Noteholders, the following provisions of this Condition 6(e)(ii) shall cease to have any further effect in relation to such Restructuring Event.

If Restructuring Event Put Option is specified hereon and if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to the above paragraph):

- (A) within the Restructuring Period, either:
 - (I) if at the time such Restructuring Event occurs the Notes are rated, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (II) if at such time the Notes are not rated, a Negative Rating Event also occurs;
- (B) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (i) and (ii) above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Restructuring Event (the “**Confirmation**”); and
- (C) 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 Noteholders (a “**Negative Certification**”),

then, unless at any time the Issuer shall have given a notice under Condition 6(c), 6(d), 6(f), 6(g) or 6(h) the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the “**Restructuring Event Put Option**”) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the date which is seven days after the expiration of the Put Period (as defined below) (or such other date as may be specified hereon, the “**Put Date**”), at the Restructuring Event Redemption Amount specified hereon together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.

An event shall be deemed not to be a Restructuring Event if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Notes by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Notes an investment grade credit rating (BBB-/Baa3 or their respective equivalents for the time being) or better 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 interests of the Noteholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Noteholders.

- (iii) This Condition 6(e)(iii) applies only where SSE is the Issuer:

If Change of Control Put Option is specified hereon and if, at any time while any of the Notes remains outstanding, a Change of Control occurs and:

- (A) on the date (the “**Relevant Announcement Date**”) that is the earlier of (1) the date of the first public announcement of the relevant Change of Control and (2) the date of the earliest Relevant Potential Change of Control Announcement (if any), the Notes carry:
 - (I) a credit rating from any Rating Agency and there occurs, within the Change of Control Period, a Change of Control Rating Downgrade; or
 - (II) no credit rating and a Change of Control Negative Rating Event also occurs within the Change of Control Period,

provided that an event shall be deemed not to be a Change of Control if, notwithstanding the occurrence of a Change of Control Rating Downgrade or a Change of Control Negative Rating Event, the rating assigned to the Notes by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Notes an investment grade credit rating (BBB-/Baa3 or their respective equivalents for the time being) or better within the Change of Control Period; and

- (B) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (I) and (II) above or not to award a credit rating of at least investment grade as described in paragraph (ii) of the definition of Change of Control Negative Rating Event, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement (the “**Confirmation**”),

then, unless at any time the Issuer shall have given a notice under Condition 6(c), 6(d), 6(f), 6(g) or 6(h) the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the “**Change of Control Put Option**”) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the date which is seven days after the expiration of this Put Period (as defined below) (or such other date as may be specified hereon, the “**Put Date**”), at the Change of Control Redemption Amount specified hereon together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.

- (iv) This Condition 6(e)(iv) applies only where SSE is the Issuer:

If SSE Restructuring Event Put Option is specified hereon and as soon as reasonably practicable after the occurrence of a SSE Restructuring Event, the Issuer shall make a Public Announcement and if, within the SSE Restructuring Period, either:

- (A) (if at the time that the SSE Restructuring Event occurs there are Rated Securities) a SSE Rating Downgrade in respect of the SSE Restructuring Event occurs; or
- (B) (if at the time that the SSE Restructuring Event occurs there are no Rated Securities) a SSE Negative Rating Event in respect of the SSE Restructuring Event occurs,

(the SSE Restructuring Event and SSE Rating Downgrade or the SSE Restructuring Event and SSE Negative Rating Event, as the case may be, occurring within the SSE Restructuring Period, together called a “**SSE Restructuring Event Put Event**”),

then, unless the Issuer shall have previously given a notice under Condition 6(c), 6(d), 6(f), 6(g) or 6(h) the holder of each Note will have the option (the “**SSE Restructuring Event Put Option**”) upon the giving of Put Event Exercise Notice (as defined below) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) such Note on the date which is seven days after the expiration of the Put Period (as defined below) (or such other date as may be specified hereon, the “**Put Date**”) at the SSE Restructuring Event Redemption Amount specified hereon together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.

The Issuer shall, forthwith upon becoming aware of the occurrence of any event which may (after taking into account all (if any) other relevant events in relation to Disposed Assets for the purpose of this Condition 6(e)(iv)) result in a SSE Restructuring Event (a “**Potential SSE**”

Restructuring Event”) (a) provide the Trustee with the relevant Directors’ Report and (b) to the extent permitted by the terms of the engagement letter between the Issuer and the Reporting Accountants, provide or procure that the Reporting Accountants provide the Trustee with a copy of the Accountants’ Report. The Directors’ Report and the Accountants’ Report shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Noteholders. The Trustee shall be entitled to act, or not act, and rely on without being expected to verify the accuracy of the same (and shall have no liability to Noteholders for doing so) any Directors’ Report and/or any Accountants’ Report provided to it (whether or not addressed to it).

- (v) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a ³[Restructuring Event Put Event], ⁴[Change of Control Put Event] or ⁴[SSE Restructuring Event Put Event] has occurred, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction), give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 17 specifying the nature of the ³[Restructuring Event Put Event], ⁴[Change of Control Put Event] or ⁴[SSE Restructuring Event Put Event] and the procedure for exercising the ³[Restructuring Event Put Option], ⁴[Change of Control Put Option] or ⁴[SSE Restructuring Event Put Option].

If the rating designations employed by any of Moody’s or S&P are changed from those which are described in the definition of ³[Rating Downgrade], ⁴[Change of Control Rating Downgrade] or [SSE Rating Downgrade] below, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee, the rating designations of Moody’s or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody’s or S&P and this Condition 6 shall be construed accordingly.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether ³[a Restructuring Event, a Negative Rating Event or a Potential Restructuring Event (as defined in the Trust Deed)], ⁴[a Change of Control Put Event, Change of Control, a Change of Control Negative Rating Event or any event which could lead to the occurrence of or could constitute a Change of Control] or ⁴[a SSE Restructuring Event, a SSE Negative Rating Event or a Potential SSE Restructuring Event] has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume without liability to any person for so doing that no such event has occurred. The Trust Deed also provides that in determining whether or not a ³[Restructuring Event] or ⁴[SSE Restructuring Event] has occurred, the Trustee shall be entitled, but not bound, to rely solely on an opinion given in a certificate signed by two directors of the Issuer.

To exercise any option specified in this Condition 6(e) the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Notice Period or 30 days after a Put Event Notice is given (or such other put period as may be specified hereon, the “**Put Period**”),

³ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

⁴ Only applicable where SSE is the Issuer.

as applicable. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Redemption for Index Reasons:** If Indexation is specified hereon and if the Index (as defined in Condition 7) ceases to be published or any changes are made to it which, in the opinion of the Expert (as defined in Condition 7), constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Noteholders and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee considers reasonable), or states to the Issuer and the Trustee that it is unable, to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments) as described in Condition 7(b)(iii), the Issuer shall, within 14 days after the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall be not more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their outstanding nominal amount as adjusted for indexation in accordance with Condition 7 together (where applicable) with accrued interest on the outstanding nominal amount to the date fixed for redemption (as adjusted as aforesaid).

If the Index ceases to be published or any changes are made to it which, in the opinion of the Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee considers reasonable), or states to the Issuer and the Trustee that it is unable to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments) as described in Condition 7(b)(iii), the Issuer may at its option, within 14 days after the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall be not more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their nominal amount as adjusted for indexation in accordance with Condition 7, together (where applicable) with accrued interest on the outstanding nominal amount to the date fixed for redemption (as adjusted as aforesaid).

- (g) **Redemption at the option of the Issuer (Issuer Maturity Par Call):** If Issuer Maturity Par Call is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon), redeem the Notes in whole, but not in part, at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at the Final Redemption Amount specified hereon together with interest accrued (if any) to (but excluding) the date fixed for redemption, subject to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (h) **Clean-Up Call Option:** If Clean-Up Call Option is specified hereon, the Issuer may, on giving no less than 30 nor more than 60 days' irrevocable notice to the Noteholders, redeem the Notes in whole, but not in part, on the date specified in such notice at the Clean-Up Redemption Amount specified hereon together with interest accrued (if any) to (but excluding) the date fixed for redemption, subject to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (i) **Purchases:** The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (j) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each

case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 INDEXATION

If Indexation is specified hereon:

(a) **Indexation:**

- (i) The redemption amount payable pursuant to Condition 6(a), 6(b), 6(c), 6(d), 6(e), 6(f), 6(g) or 6(h) and the amount payable pursuant to Condition 11 upon repayment of the Notes, as the case may be, shall be the Early Redemption Amount, the Optional Redemption Amount, the Make-Whole Amount, ⁵[the Restructuring Event Redemption Amount], ⁶[the Change of Control Redemption Amount], ²[the SSE Restructuring Event Redemption Amount] or the outstanding nominal amount of the Notes, as the case may be, multiplied by the Index Ratio applicable to the date on which such redemption amount or repayment becomes payable.

Interest on the Notes shall be calculated at the Rate of Interest specified hereon multiplied by the Index Ratio applicable to the date on which such payment falls to be made and rounded to six decimal places (0.0000005 being rounded upwards). The amount of interest payable on each Note shall be calculated in accordance with Condition 5(f).

The Calculation Agent will calculate such redemption amount, repayment amount, amount of interest or rate of interest (as the case may be) as soon as practicable after each time such amount or rate is capable of being determined and will notify the Issuing and Paying Agent thereof as soon as practicable after calculating the same. The Issuing and Paying Agent will as soon as practicable thereafter notify the Issuer and any stock exchange on which the Notes are for the time being listed thereof and cause notice thereof to be published in accordance with Condition 17.

- (ii) *Definitions:* For the purposes of these Conditions:

“**Base Index Figure**” means, subject as provided in Condition 7(b) below, the Base Index Figure specified hereon;

“**Calculation Date**” means any date when a payment of interest or, as the case may be, principal falls due;

“**Expert**” means an independent investment bank or other expert in London appointed by the Issuer and approved by the Trustee or (failing such appointment within 10 days after the Trustee shall have requested such appointment) appointed by the Trustee;

“**Index**” or “**Index Figure**” means, in relation to any calculation month (as defined in Condition 7(b)(ii)(A)), subject as provided in Conditions 6(f) and 7(b), the United Kingdom General Index of Retail Prices (for all items) as published by the Office for National Statistics (January 1987=100) as published by HM Government (currently contained in the Monthly Digest of Statistics) and applicable to such calculation month or, if that index is not published for any calculation month, any substituted index or index figures published by the Office for National Statistics or the comparable index which replaces the United Kingdom General Index

⁵ Only applicable where SHEPD, SHE Transmission, or SEPD is the Issuer

⁶ Only applicable where SSE is the Issuer

of Retail Prices (for all items) for the purpose of calculating the amount payable on repayment of the Reference Gilt;

Any reference to the “**Index Figure applicable**” to a particular Calculation Date shall, subject as provided in Condition 7(b) below, and if “3 months lag” is specified hereon, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m-3} \frac{(\text{Day of Calculation Date}-1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-2} - \text{RPI}_{m-3})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“**IFA**” means the Index Figure applicable;

“**RPI_{m-3}**” means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

“**RPI_{m-2}**” means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the “**Index Figure applicable**” to a particular Calculation Date shall, subject as provided in Condition 7(b) below, and if “8 months lag” is specified hereon, be calculated in accordance with the following formula:

$$\text{IFA} = \text{RPI}_{m-8} \frac{(\text{Day of Calculation Date}-1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m-7} - \text{RPI}_{m-8})$$

and rounded to five decimal places (0.000005 being rounded upwards) and where:

“**IFA**” means the Index Figure applicable;

“**RPI_{m-8}**” means the Index Figure for the first day of the month that is eight months prior to the month in which the payment falls due;

“**RPI_{m-7}**” means the Index Figure for the first day of the month that is seven months prior to the month in which the payment falls due;

“**Index Ratio**” applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure and rounded to five decimal places (0.000005 being rounded upwards); and

“**Reference Gilt**” means the Reference Gilt specified hereon (or, if such stock is not in existence, such other index-linked stock issued by or on behalf of HM Government as the Issuer, on the advice of three leading brokers and/or gilt edged market makers (or such other three persons operating in the gilt edged market as the Issuer subject to the approval of the Trustee, may select), may consider to be the most appropriate reference government stock for the Notes).

(b) **Changes in Index:**

(i) *Change in base:* If at any time the Index is changed by the substitution of a new base for it, then with effect from (and including) the date from and including that on which such substitution takes effect:

(A) the definition of Index and Index Figure in Condition 7(a) shall be deemed to refer to the new date in substitution for January 1987 (or, as the case may be, for such other date or month as may have been substituted for it); and

- (B) the definition of Base Index Figure in Condition 7(a) shall be amended to mean the product of the then-applicable Base Index Figure and the Index immediately following such substitution, divided by the Index immediately prior to such substitution.
- (ii) *Delay in publication of the Index:*
- (A) If, in relation to a particular payment of interest or to the redemption of the Notes and otherwise than in circumstances which the Issuer certifies to the Trustee may fall within Condition 7(b)(iii) or 6(f) (notwithstanding that the Issuer may subsequently be advised that they do not fall within Condition 7(b)(iii) or 6(f)), the Index Figure relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth day before the date on which such payment is due (the “**date for payment**”), the Index Figure relating to the relevant calculation month shall be the substitute index figure (if any) as is published by the Bank of England or the United Kingdom Debt Management Office (or such other United Kingdom authority as may be appropriate) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more of HM Government’s index-linked stocks, as determined by the Expert; or
 - (B) if no such determination is made by the Expert within seven days, the Index Figure last published before the date for payment.

Where the provisions of this Condition 7(b)(ii) apply, the certificate of the Issuer, acting on the advice of an Expert, as to the Index Figure applicable to the date for payment falls shall be conclusive and binding upon the Issuer, the Trustee and the Noteholders. If a substitute index is published as specified in (A) above, a determination made based on that index shall be final and no further payment by way of adjustment shall be made, notwithstanding that the Index Figure applicable to the date for payment may subsequently be published. If no substitute index is so published and the Index relating to the date for payment is subsequently published, then:

- (x) in the case of any Note not falling due for redemption on the date for payment, if the Index so subsequently published (if published while that Note remains outstanding) is greater or less than the Index applicable by virtue of (B) above, the interest payable on that Note on the Interest Payment Date next succeeding the date of such subsequent publication shall be increased or reduced to reflect the amount by which the interest payable on that Note on the date for payment on the basis of the Index applicable by virtue of (B) above fell short of, or (as the case may be) exceeded the interest which would have been payable on that Note if the Index subsequently published had been published on or before the second business day before the date for payment; or
 - (y) in the case of any Note falling due for final redemption on the date for payment, no subsequent adjustment to amounts paid will be made.
- (iii) *Cessation of or fundamental changes to the Index:* If the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may consider reasonable), the Expert recommends for the purposes of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the Issuer or the interests of the Noteholders, as compared to the interests of the Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be

published or such fundamental change in the rules governing the Index not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 17.

If any payment in respect of the Notes is due to be made after the cessation or changes referred to in the preceding paragraph but before any such adjustment to, or replacement of, the Index takes effect, the Issuer shall (if the Index Figure applicable (or deemed applicable) to the date for payment is not available in accordance with the provisions of Condition 7(a)) make a provisional payment on the basis that the Index Figure applicable to the date for payment is the Index last published. In that event or in the event of any payment on the Notes having been made on the basis of an Index deemed applicable under Condition 7(b)(ii)(A) above (also referred to below as a “**provisional payment**”) and of the Trustee on the advice of the Expert (on which it may rely solely without liability to any person for so doing) subsequently determining that the relevant circumstances fall within this Condition 7(b)(iii), then:

- (A) except in the case of a payment on redemption of the Notes, if the sum which would have been payable if such adjustments or such substitute index had been in effect on the due date for such provisional payment is greater or less than the amount of such provisional payment, the interest payable on the Notes on the Interest Payment Date next succeeding the last date by which the Issuer and Trustee receive such recommendation shall be increased or reduced to reflect the amount by which such provisional payment of interest fell short of, or (as the case may be) exceeded, the interest which would have been payable on the Notes if such adjustments or such substituted index had been in effect on that date; or
 - (B) in the case of a payment of principal or interest on redemption of the Notes, no subsequent adjustment to amounts paid will be made.
- (iv) *Trustee*: The Trustee shall be entitled to assume that no cessation of or change to the Index has occurred until informed otherwise by the Issuer and will not be responsible for identifying or appointing an Expert save as provided in these Conditions.
- (c) **Appointment of Expert**: At any time when under these Conditions it is necessary to have, or the Trustee requests, the appointment of an Expert, the Issuer shall take such steps as are necessary to appoint an Expert approved by the Trustee and at the expense of the Issuer.

8 PAYMENTS AND TALONS

- (a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(vi) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes**:

- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** Save as provided in Condition 9, all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreement. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 8(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than RPI Linked Notes), such Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that

proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, or RPI Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).
- (h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

9 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied,

collected, withheld or assessed by or within the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing the relevant Note is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

Notwithstanding anything to the contrary contained herein, the Issuer shall be entitled to withhold and deduct any amounts required to be deducted or withheld in respect of payment of principal and/or interest made by it in respect of the Notes and the Coupons pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended, (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”), and neither the Issuer nor any other person shall be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relevant Certificate) or Coupon being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Make-Whole Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

10 PRESCRIPTION

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

11 EVENTS OF DEFAULT

If any of the following events (“**Events of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall thereupon immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon:

- (i) **Non-Payment:** default is made for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under the Notes 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 in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** (A) any other Indebtedness For Borrowed Money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default or (B) any such Indebtedness For Borrowed Money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) 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 (D) any security given by the Issuer or any Principal Subsidiary for any Indebtedness For Borrowed Money of any person or for 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 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, 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 paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent, of Capital and Reserves, and for the purposes of this paragraph (iii), “Indebtedness For Borrowed Money” shall exclude Project Finance Indebtedness; or
- (iv) **Winding up — Issuer:** 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 in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (v) **Winding up — Principal Subsidiary:** any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (vi) **Cessation of Business:** the Issuer or any Principal Subsidiary 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 similar arrangement (A) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member or members of the Group (other than an Excluded Subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (B) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm’s length basis or (C) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the

Noteholders,⁷[provided that if neither the Issuer nor any Relevant Subsidiary holds the Distribution Licence, the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (A) and (B) shall apply)]; or

- (vii) **Insolvency:** the Issuer or any Principal Subsidiary shall suspend or announce its intention 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 generally (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 generally under Section 1 of the Insolvency Act 1986; or
- (viii) **Security Enforced:** a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary 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 90 days (or such longer period as the Trustee may in its absolute discretion permit),

provided that in the case of paragraphs (ii), (iii), (v), (vi), (viii) and (other than in relation to the Issuer) (vii) the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

For the purposes of paragraph (vii) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for “£750” there was substituted “£250,000”. Neither the Issuer nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of paragraph (vii) 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 Principal Subsidiary with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period as may be stated in any notice given by the Trustee under this Condition.

12 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent, in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:
 - (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes,
 - (ii) to reduce or cancel the nominal amount of or any premium payable on redemption of, the Notes,
 - (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes,

⁷ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

- (iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum,
- (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Make-Whole Amount, including the method of calculating the Amortised Face Amount,
- (vi) to vary the currency or currencies of payment or denomination of the Notes, or
- (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

in which case the necessary quorum shall be two or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in nominal amount of the Notes for the time being outstanding.

Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders. The Trust Deed provides that a resolution in writing signed by or on behalf of holders of not less than 90 per cent, of the aggregate nominal amount of Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of any Relevant Subsidiary or any wholly-owned Subsidiary (other than an Excluded Subsidiary) of the Issuer subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer, ⁸(ii) such Relevant Subsidiary or wholly-owned Subsidiary holding the Distribution Licence or, if and, to the extent that, such Relevant Subsidiary or wholly-owned Subsidiary or the Issuer does not hold the Distribution Licence, an unconditional and irrevocable guarantee in respect of the Notes being provided by the Relevant Subsidiary and/or a wholly-owned Subsidiary of the Issuer which holds the Distribution Licence,] (iii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (iv) certain other conditions set out in the Trust Deed being complied with. Where the Notes are to have the benefit of a guarantee provided by the Issuer and a Relevant Subsidiary or a wholly-owned Subsidiary as aforesaid, such guarantee shall be on a joint and several basis.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

⁸ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

13 ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

15 REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS

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

16 FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17 NOTICES

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

been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

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

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19 DEFINITIONS

For the purposes of these Conditions:

“Accountants’ Report” means a report of the Reporting Accountants stating whether the amounts included in the calculation of the Operating Profit and the amount for Consolidated Operating Profit as included in the Directors’ Report have been accurately extracted from the accounting records of the Issuer and its consolidated subsidiaries and whether the Disposal Percentage included in the Directors’ Report has been correctly calculated which will be prepared pursuant to an engagement letter to be entered into by the Reporting Accountants and the Issuer.

The Issuer shall use reasonable endeavours to procure that there shall at the relevant time be Reporting Accountants who have (a) entered into an engagement letter with the Issuer which shall (i) not limit the liability of the Reporting Accountants by reference to a monetary cap, (ii) permit the Trustee to receive a copy of, and rely upon, any Accountants’ Reports produced by them and (iii) be available for inspection by Noteholders at the principal office of the Trustee or (b) agreed to provide Accountants’ Reports on such other terms as the Issuer and the Trustee, in its absolute discretion, shall approve.

If the Issuer, having used reasonable endeavours, is unable to procure that there shall at the relevant time be Reporting Accountants who have entered into an engagement letter complying with (i) above, the Trustee may rely on an Accountants’ Report (whether or not addressed to it) which contains a limit on the liability of the Reporting Accountants by reference to a monetary cap or otherwise.

Investors should be aware that the engagement letter may contain a limit on the liability of the Reporting Accountants which may impact on the interests of Noteholders.

If the Issuer, having used reasonable endeavours, is unable to procure that there shall at the relevant time be Reporting Accountants who have entered into an engagement letter complying with (ii) above, the Issuer shall procure that the Directors’ Report shall state whether or not the Accountants Report confirms whether or not (x) the amounts referred to in the first paragraph of this definition have been so correctly extracted and (y) the relevant Disposal Percentage has been correctly calculated and, if applicable, shall give details of any respects in which the Accountants’ Report reaches a different conclusion from that stated in the Directors’ Report. In the event that the Accountants’ Report does not confirm that such amounts have been correctly extracted and/or correctly calculated, the Issuer shall, as soon as reasonably practicable, provide the Trustee with a revised Directors’ Report which states that the Accountants’ Report confirms the details referred to in (x) and (y) above in relation to the contents of such revised Directors Report. The Trustee may rely upon the revised Directors’ Report regardless of the contents of any previous Directors’ Report delivered as contemplated by this paragraph.

The Issuer shall give notice in writing to the Trustee of the identity of the Reporting Accountants at any relevant time;

“Balancing and Settlement Code” means the document as may be modified from time to time, setting out the balancing and settling arrangements established by National Grid Electricity Transmission plc or any other successor system or operator pursuant to its distribution licence;

“Capital and Reserves” means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Issuer; and
- (ii) the total of the capital, revaluation and revenue reserves of the Group, including any share premium account, capital redemption reserve and credit balance on the profit and loss account, but excluding sums set aside for taxation and amounts attributable to minority interests and deducting any debit balance on the profit and loss account,

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with generally accepted accounting principles in the United Kingdom, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

A report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties;

“Change of Control” means the occurrence of an event whereby any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006 as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006 as amended) in (A) more than 50 per cent, of the issued or allotted ordinary share capital of the Issuer or (B) shares in the capital of the Issuer carrying more than 50 per cent, of the voting rights normally exercisable at a general meeting of the Issuer;

“Change of Control Period” means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which the Notes are under consideration (such consideration having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration);

a **“Change of Control Put Event”** occurs on the date of the last to occur of (a) a Change of Control, (b) either a Change of Control Rating Downgrade or, as the case may be, a Change of Control Negative Rating Event and (c) the Confirmation;

a **“Change of Control Rating Downgrade”** shall be deemed to have occurred in respect of a Change of Control if the then current rating assigned to the Notes by any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then current rating (if any) assigned to the Notes by any Rating Agency of its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Notes below investment grade (as described above), the rating is lowered one full rating category (from BB+/Bal to BB/Ba2 or such similar lowering);

a **“Change of Control Negative Rating Event”** shall be deemed to have occurred if at such time as there is no rating assigned to the Notes by a Rating Agency (i) the Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes, or any other unsecured and unsubordinated debt of the Issuer or (ii) if the Issuer does so seek and use such endeavours, it is unable to

obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being) by the end of the Change of Control Period, provided that in either case, there is at least one Rating Agency in operation at such time from whom to obtain such a rating. If there is no Rating Agency so in operation no Change of Control Negative Rating Event shall be deemed to occur;

a **“Clean-Up Call Option”** may be exercised by the Issuer in the event that Notes representing an aggregate amount equal to or exceeding 80 per cent. of the initial aggregate nominal amount of the Notes of the same Series have been redeemed or purchased and, in each case, cancelled;

“Consolidated Operating Profit” means the consolidated operating profit on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets (and, for the avoidance of doubt, excluding the impact of IAS 39 and exceptional items, as reflected in the Relevant Accounts) of the Issuer (including any share of operating profit of associates and joint ventures) determined in accordance with International Financial Reporting Standards (**“IFRS”**) by reference to the Relevant Accounts;

“Directors’ Report” means a report prepared and signed by two directors of the Issuer addressed to the Trustee setting out the Operating Profit, the Consolidated Operating Profit and the Disposal Percentage (in each case in relation to the relevant Disposed Assets), stating any assumptions which the directors have employed in determining, in each case, the Operating Profit, confirming whether or not a SSE Restructuring Event has occurred and, where applicable, containing the relevant confirmation referred to in the definition of **“Accountants Report”** above (and includes any revision made to any previous report);

“Disposal Percentage” means, in relation to a sale, transfer, lease or other disposal or dispossession of any Disposed Assets, the ratio of (a) the aggregate Operating Profit to (b) the Consolidated Operating Profit, expressed as a percentage;

“Disposed Assets” means, where the Issuer and/or any of its subsidiaries sells, transfers, leases or otherwise disposes of or is dispossessed by any means (but excluding sales, transfers, leases, disposals or dispossessions which, when taken together with any related lease back or similar arrangements entered into in the ordinary course of business, have the result that Operating Profit directly attributable to any such undertaking, property or assets continues to accrue to the Issuer or, as the case may be, such subsidiary), otherwise than to a wholly-owned subsidiary of the Issuer or to the Issuer, of the whole or any part (whether by a single transaction or by a number of transactions whether related or not) of its undertaking or (except in the ordinary course of business of the Issuer or any such subsidiary) property or assets, the undertaking, property or assets sold, transferred, leased or otherwise disposed of or of which it is so dispossessed;

“Distribution Licence” means the distribution licence granted to the Issuer under Section 6(l)(c) of the Electricity Act, as amended by Section 30 of the Utilities Act, and from time to time, any other replacement licence or licences or exemptions granted or issued by any relevant authority or person in the United Kingdom to the Issuer which entitles the Issuer to distribute electricity in the United Kingdom or any part thereof;

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

“Excluded Subsidiary” means any Subsidiary of the Issuer:

- (i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (ii) none of whose Indebtedness For Borrowed Money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the

repayment thereof, except as expressly referred to in paragraph (ii) of the definition of Project Finance Indebtedness; and

(iii) which has been designated as such by the Issuer by written notice to the Trustee,

provided that the Issuer may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;

“**Gas and Electricity Markets Authority**” means the authority so named and established under Section 1 of the Utilities Act or, as the case may be, any other competent authority;

“**Group**” means the Issuer and its Subsidiary Undertakings and “**member of the Group**” shall be construed accordingly;

“**Indebtedness For Borrowed Money**” means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other 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;

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

a “**Negative Rating Event**” shall be deemed to have occurred if (A) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being);

“**Operating Profit**”, in relation to any Disposed Assets, means the operating profits on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets (and, for the avoidance of doubt, excluding the impact of IAS 39 and exceptional items, as reflected in the Relevant Accounts) of the Issuer and its consolidated subsidiaries directly attributable to such Disposed Assets as determined in accordance with IFRS by reference to the Relevant Accounts and, if Relevant Accounts do not yet exist, determined in a manner consistent with the assumptions upon which the Directors’ Report is to be based. Where the Directors of the Issuer have employed assumptions in determining the Operating Profit, those assumptions should be clearly stated in the Directors’ Report;

“**Principal Subsidiary**” at any time shall mean:

- (i) any Relevant Subsidiary; or
- (ii) any Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer at least 90 per cent, in nominal amount of whose Indebtedness For Borrowed Money is Project Finance Indebtedness):
 - (A) whose (a) profits on ordinary activities before tax or (b) net assets represent 20 per cent., or more of the consolidated profits on ordinary activities before tax of the Issuer or, as the case may be, consolidated net assets of the Issuer, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) and the then latest audited consolidated financial statements of the Issuer provided that in the case of a Subsidiary acquired after the end of the financial period to

which the then latest relevant audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries), adjusted as deemed appropriate by the Auditors after consultation with the Issuer; or

- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall become a Principal Subsidiary under the provisions of this subparagraph (B) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of subparagraph (A) above or before, on or at any time after such date by virtue of the provisions of this subparagraph (B).

A report by the Auditors that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Noteholders;

“Project Finance Indebtedness” means any present or future indebtedness incurred to finance the ownership, acquisition, development and/or operation of an asset, whether or not an asset of a member of the Group:

- (i) which is incurred by an Excluded Subsidiary; or
- (ii) in respect of which the person or persons to whom any such indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
 - (A) recourse for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset; and/or
 - (B) recourse for the purpose only of enabling amounts to be claimed in respect of such indebtedness in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness, provided that (aa) the extent of such recourse is limited solely to the amount of any recoveries made on any such enforcement and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness, to commence proceedings for the winding up or dissolution of any member of the Group (other than an Excluded Subsidiary) or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of any member of the Group (other than an Excluded Subsidiary) or any of its assets (save for the assets the subject of such encumbrance); and/or
 - (C) recourse under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by any member of the Group (other than an Excluded Subsidiary);

References to the Notes being “rated” are to the Notes having a rating from a Rating Agency;

“**Public Announcement**” means an announcement made by the Issuer of the occurrence of an SSE Restructuring Event in accordance with Condition 17;

“**Rated Securities**” means the Notes, if and for so long as they shall have an effective rating from a Rating Agency and otherwise any Rateable Debt which is rated by a Rating Agency; provided that if there shall be no such Rateable Debt outstanding prior to the maturity of the Notes, the holders of not less than one-quarter in principal amount of outstanding Notes may require the Issuer to obtain and thereafter update on an annual basis a rating of the Notes from a Rating Agency. In addition, the Issuer may at any time obtain, and thereafter update, on an annual basis a rating of the Notes from a Rating Agency, provided that, except as provided above, the Issuer shall not have any obligation to obtain such a rating of the Notes;

“**Rating Agency**” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its Subsidiaries and their successors (“**S&P**”) or Moody’s Investors Service, Inc. or any of its Subsidiaries and their successors (“**Moody’s**”) or any rating agency (a “**Substitute Rating Agency**”) substituted for any of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders);

“**Relevant Accounts**” means the most recent annual audited consolidated financial accounts of the Issuer preceding the relevant sale, transfer, lease or other disposal or dispossession of any Disposed Asset;

“**Relevant Potential Change of Control Announcement**” means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where within 180 days following the date of such announcement or statement, a Change of Control occurs;

a “**Rating Downgrade**” shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Notes 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 (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Notes below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lowering);

“**Relevant Indebtedness**” means any present or future 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, but shall in any event not include Project Finance Indebtedness;

“**Relevant Subsidiary**” means a wholly-owned Subsidiary of the Issuer or of another Relevant Subsidiary which is a guarantor in respect of, or is a primary obligor under, the Notes as contemplated in Condition 12(c) or paragraph (i)(c) of the definition of Restructuring Event;

“**Reporting Accountants**” means the auditors for the time being of the Issuer (but not acting in their capacity as auditors) or such other firm of accountants as may be nominated by the Issuer and approved in writing by the Trustee for the purpose (such approval not to be unreasonably withheld or delayed having regard to the interests of the Noteholders) or, failing which, as may be selected by the Trustee for the purpose;

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

- (i) (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements the Gas and Electricity Markets Authority (or any successor) gives

- the Issuer or, as the case may be, a Relevant Subsidiary, written notice of revocation of the Distribution Licence, provided that the giving of notice pursuant to paragraph 3 of Part I of the Distribution Licence as in effect on the date on which agreement is reached to issue the first Tranche of the Notes, shall not be deemed to constitute the revocation of the Distribution Licence; or
- (b) the Issuer or, as the case may be, a Relevant Subsidiary agrees in writing with the Secretary of State (or any successor) to any revocation or surrender of the Distribution Licence; or
 - (c) any legislation (whether primary or subordinate) is enacted terminating or revoking the Distribution Licence, except in any such case in circumstances where a licence or licences on (in the opinion of the Trustee after consultation with the Issuer) no less favourable terms is or are granted to the Issuer or a Relevant Subsidiary and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or becomes the primary obligor (jointly or severally where appropriate) under the Notes in accordance with Condition 12(c); or
- (ii) any modification, other than a modification which is of a formal, minor or technical nature, is made to the terms and conditions of the Distribution Licence on or after the date on which agreement is reached to issue the first Tranche of the Notes unless two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that such modified terms and conditions are not materially less favourable to the business of the Issuer; or
 - (iii) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for Trade and Industry (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under Section 3A of the Electricity Act unless two directors of the Issuer have certified in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that the legislation is not materially adverse to the business of the Group; or
- (iv)
 - (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements or open market mechanisms or frameworks, in each case on terms which two directors of the Issuer certify in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or
 - (b) the Issuer or, as the case may be, a Relevant Subsidiary is given an Expulsion Notice (as defined in the Balancing and Settlement Code) pursuant to Section A.5.2.4 of the Balancing and Settlement Code requiring it to cease to be a party thereto; or
 - (c) there shall have occurred a Default (as defined in the Balancing and Settlement Code) under Section H.3.1.1 of the Balancing and Settlement Code in relation to the Issuer or, as the case may be, a Relevant Subsidiary, and such default remains unremedied or unwaived; or
 - (d) the Issuer or, as the case may be, a Relevant Subsidiary ceases to be a party to the Balancing and Settlement Code for any reason (other than pursuant to (b) and (c) above) except where a Distribution Licence is granted to a Relevant Subsidiary or, as the case may be, another Relevant Subsidiary as contemplated by paragraph (a) above and at or about the same time all rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary, pursuant to the Balancing and Settlement Code, which are attributable to such licence are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of

Noteholders) or such Relevant Subsidiary enters into one or more agreements, commercial arrangements or open market mechanisms or frameworks in relation to such licence which two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or

- (e) any modification is made to the Balancing and Settlement Code in accordance with its terms or any legislation (whether primary or subordinate) is enacted terminating or modifying the Balancing and Settlement Code, provided that any such modification is material in the context of the rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary under the Balancing and Settlement Code; and provided further that any modification shall to the extent it grants or confers powers or discretions on the Gas and Electricity Markets Authority (or any successor) under or in respect of the Balancing and Settlement Code be deemed not to be material as aforesaid, but for the avoidance of doubt, any modification to the Balancing and Settlement Code made by the Gas and Electricity Markets Authority (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would be a material modification as provided above shall not, by virtue of this provision be deemed not to be material;

A “**Restructuring Event Put Event**” occurs on the date of the last to occur of (a) a Restructuring Event, (b) either a Rating Downgrade or, as the case may be, a Negative Rating Event, (c) the Confirmation and (d) the relevant Negative Certification;

“**Restructuring Period**” means:

- (i) if at any time a Restructuring Event occurs the Notes are rated, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
- (ii) at the time a Restructuring Event occurs the Notes are not rated, the period starting from and including the day on which that 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 as contemplated in the definition of Negative Rating Event prior to the expiry of the 14 days referred to in that definition and (b) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event;

(or, in each case, such longer period in which the Rated Securities are under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by a Rating Agency);

“**Secretary of State**” means the Secretary of State for Business, Enterprise and Regulatory Reforms (or any successor);

“**SSE Negative Rating Event**” shall be deemed to have occurred if at the time of the SSE Restructuring Event there are no Rated Securities and either:

- (i) the Issuer does not, either prior to or not later than 21 days after the relevant SSE Restructuring Event, seek, and thereafter throughout the SSE Restructuring Period use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more (“**Rateable Debt**”) from a Rating Agency; or
- (ii) if the Issuer does so seek and use such endeavours, it is unable, as a result of such SSE Restructuring Event, to obtain a rating from a Rating Agency within the SSE Restructuring Period of at least BBB or Baa2 (or their respective equivalents for the time being),

provided that in either case there is at least one Rating Agency in operation at such time from whom to obtain such a rating, and if there is no Rating Agency in operation no SSE Negative Rating Event will be deemed to

occur. The Issuer shall promptly notify the Trustee in writing of the date on which it first seeks to obtain the rating referred to in paragraph (a) above;

“SSE Rating Downgrade” shall be deemed to have occurred in respect of the SSE Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then current rating (if any) assigned to the Rated Securities by any Rating Agency of its own volition) is: (i) withdrawn or reduced from a rating of at least BBB or Baa2 (or their respective equivalents for the time being) to a rating below BBB or Baa2 (or their respective equivalents for the time being) or, (ii) if a Rating Agency shall already have rated the Rated Securities below BBB or Baa2 (or their respective equivalents for the time being), the rating is lowered at least one full rating notch (for example, BBB/ Baa2 to BBB-/Baa3 (or, in each case, their respective equivalents for the time being); provided that a SSE Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular SSE Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce publicly or confirm in writing to the Issuer or the Trustee that its decision resulted, in whole or in part, from the occurrence of, or any event or circumstance comprised in or arising as a result of, or in respect of, the applicable SSE Restructuring Event (whether or not the SSE Restructuring Event shall have occurred at the time of the SSE Rating Downgrade);

“SSE Restructuring Event” shall be deemed to have occurred at any time (whether or not approved by the board of directors of the Issuer) if the sum of all (if any) Disposal Percentages arising within any period of 36 consecutive months commencing on or after the date on which agreement is reached to issue the first Tranche of the Notes is greater than 30 per cent.; and

“SSE Restructuring Period” means:

- (i) if at the time a SSE Restructuring Event occurs there are Rated Securities, the period of 90 days beginning on and including the date of the relevant Public Announcement; or
- (ii) if at the time a SSE Restructuring Event occurs there are no Rated Securities, the period beginning on and including the day on which such SSE 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 as contemplated in the definition of SSE Negative Rating Event prior to the expiry of the 21 days referred to in that definition and (b) the date of the relevant Public Announcement,

(or, in each case, such longer period in which the Rated Securities are under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by a Rating Agency);

“Subsidiary” means a subsidiary within the meaning of Section 1159 of the Companies Act 2006;

“Subsidiary Undertaking” shall have the meaning given to it by Section 1162 of the Companies Act 2006 (but, in relation to the Issuer, shall exclude any undertaking (as defined in Section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date);

“Utilities Act” means the Utilities Act 2000 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto; and

“wholly-owned Subsidiary” means a 100 per cent. owned Subsidiary of the Issuer.

Any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of such obligation.

20 GOVERNING LAW

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 INITIAL ISSUE OF NOTES

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form, (i) they will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper and (ii) the relevant clearing systems will be notified whether or not such Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Depositing the Global Notes with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in CGN form and Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depository.

If the Global Note is a CGN, upon the initial deposit of the Global Note with a common depository for Euroclear and Clearstream, Luxembourg (the “**Common Depository**”) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the relevant Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

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

2 RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

3 EXCHANGE

3.1 Temporary Global Notes

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

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

In relation to any issue of Notes which is represented by a Temporary Global Note which is expressed to be exchangeable for definitive Bearer Notes at the option of Noteholders, such Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination and multiples thereof).

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Trustee of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Permanent Global Certificates

If the Final Terms state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part:

- (i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) if principal in respect of any Notes is not paid when due; or (iii) with the consent of the Issuer, provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(i) or 3.3(ii) above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

3.4 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if principal in respect of any Notes is not paid when due.

3.5 Delivery of Notes

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

3.6 Exchange Date

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

4 AMENDMENT TO CONDITIONS

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

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. If the Global Note is a NGN, the Issuer shall procure that details of each such payment shall be

entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 8(h).

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

4.2 Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9).

4.3 Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. (All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4.4 Cancellation

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

4.5 Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer or any of its subsidiaries provided that they are purchased together with the rights to receive all future payments of interest thereon.

4.6 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of account holders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

4.7 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is a CGN, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is a NGN, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 NGN nominal amount

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

4.9 Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

4.10 Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

5 Electronic Consent and Written Resolution

While any Global Note is held on behalf of, or any Global Certificate is registered in the name of any nominee for, a clearing system, then:

- (a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Notes outstanding (an “**Electronic Consent**”) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum (as provided for in the Trust Deed) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held, and shall be binding on all Noteholders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be

entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing systems with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

An amount equal to the net proceeds from each issue of each Tranche of Notes will be applied, as indicated in the applicable Final Terms, either:

- (a) for general corporate purposes; or
- (b) exclusively to finance or refinance, in whole or in part, Eligible Green Projects.

According to the definition criteria set out by the International Capital Market Association (“**ICMA**”) Green Bond Principles (“**GBP**”), only Tranches of Notes exclusively financing or refinancing Eligible Green Projects (above mentioned at (b)) will be denominated “Green Bonds”.

Eligible Green Projects have been defined in accordance with the broad categorisation of eligibility for Green Projects set out by the ICMA GBP.

“**Eligible Green Projects**” means (i) projects relating to the production of renewable electricity from onshore and offshore wind power and (ii) projects relating to onshore renewable energy transmission network infrastructure.

Projects which meet a set of environmental and social criteria approved both by the Issuer and by a reputed sustainability rating agency, and are available in the investor relations section of the Issuer’s website (<http://sse.com/investors/>).

GREEN BOND FRAMEWORK

On 25 August 2017, SSE published a green bond framework in accordance with the 2017 edition of the Green Bond Principles published by the Executive Committee of the Green Bond Principles with the support of the International Capital Market Association (ICMA).

The SSE Green Bond Framework is available at: <http://sse.com/investors/>

SSE has appointed DNV GL to assess the sustainability of SSE Green Bond Framework. DNV GL has reviewed the content as well as its alignment with the GBP, providing SSE with a second party opinion. The objective of this opinion is to provide investors with an independent assessment on the SSE Green Bond Framework. The second party opinion provided by DNV GL is available at: <http://sse.com/investors/>

DESCRIPTION OF THE ISSUERS

SSE plc (“SSE”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC117119 on 1 April 1989 for an unlimited term. SSE was originally incorporated as North of Scotland Electricity plc., and on 1 August 1989 it changed its name to Scottish Hydro-Electric plc. In December 1998, Scottish Hydro-Electric plc merged with Southern Electric plc, whereby Scottish Hydro-Electric plc acquired Southern Electric plc and subsequently changed its name on 14 December 1998 to Scottish and Southern Energy plc, with a further name change to SSE plc on 30 September 2011 (SSE and its subsidiaries being the “SSE Group”). SSE is the broadest energy based company in the UK, being the only company operating in the generation, transmission, distribution and supply of energy. It has a market capitalisation of £13.9 billion and was the 33rd largest company in the FTSE 100 as at 31 July 2017.

SSE is a holding company and depends on the dividends, distributions and other payments from its subsidiaries to fund its operations.

Board of Directors of SSE

As at the date of this Prospectus, the members of the Board of Directors of SSE, all of Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ, United Kingdom are as follows:

Name	Title
Richard Gillingwater CBE	Chairman
Alistair Phillips-Davies	Chief Executive
Gregor Alexander	Finance Director
Crawford Gillies	Senior Independent Director
Jeremy Beeton CB	Non-Executive Director
Katie Bickerstaffe	Non-Executive Director
Peter Lynas	Non-Executive Director
Dame Susan Bruce DBE	Non-Executive Director
Helen Mahy CBE	Non-Executive Director

The members of the Board of Directors of SSE have the following significant outside activities:

- **Richard Gillingwater CBE** is Chairman of Henderson Group plc, Senior Independent Director of Helical Bar plc and Pro-Chancellor of Open University.
- **Alistair Phillips-Davies** is a member of the Accenture Global Energy Board and Vice President of Eurelectric.
- **Gregor Alexander** is Chairman of Scotia Gas Networks Ltd and a non-Executive Director of Stagecoach Group plc.
- **Crawford Gillies** is a non-Executive Director of Barclays PLC and The Edrington Group.
- **Jeremy Beeton** is Chairman of Merseylink Ltd, Senior Independent Director of WYG plc. He is also a non-Executive Director of John Laing Group plc and OPG Power Ventures plc.
- **Katie Bickerstaffe** is Chief Executive of UK and Ireland Dixons Carphone plc.
- **Peter Lynas** is Group Finance Director of BAE Systems plc and member of the BAE Systems Inc. Board in the US.

- **Dame Susan Bruce DBE** is Chair of the Royal Scottish National Orchestra, Chair of Young Scot and Electoral Commissioner, The Electoral Commission.
- **Helen Mahy CBE** is Chairman of the Renewables Infrastructure Group and a non-Executive Director of Bonheur ASA and of MedicX Fund Limited.

There are no potential conflicts of interest between the duties of any of the members of the Board of Directors of SSE and his/her private interests and/or other duties.

Acquisitions and Disposals

Disposal of Street Lighting Project

On 30 March 2017, SSE completed the disposal of its stake in three Tay Valley Streetlighting joint ventures in Leeds, Stoke and Newcastle to DIF Infra 4 UK Limited for a net consideration of £40.4 million. This disposal reduced SSE's reported net debt by £129.4 million and these assets were held for sale at 31 March 2016.

Sale of a stake in SGN Ltd

On 26 October 2016, SSE completed the disposal of a 16.7 per cent. equity stake in Scotia Gas Networks Limited ("SGN") to wholly-owned subsidiaries of the Abu Dhabi Investment Authority (ADIA) for a headline consideration of £621 million (SSE originally paid £505 million for a 50 per cent. stake in SGN in 2005), based on an effective economic date of 1 April 2016. The sale follows a review announced by SSE in May 2016. SSE will retain a 33.3 per cent. equity stake in SGN. Of the proceeds of the sale, approximately £100 million is currently expected to be invested in Stronelairg and approximately £500 million is currently expected to be returned to shareholders by way of share buybacks by December 2017.

Acquisition of additional stake in Dogger Bank Offshore Wind development

On 24 March 2017, SSE increased its share in the Dogger Bank Offshore Wind development, following an acquisition of an additional 12.5 per cent. stake from former consortium partner Statkraft for a consideration of £15.8 million. This takes SSE's share of the project to 37.5 per cent. The Dogger Bank offshore wind development comprises four projects which are located in the North Sea off the east coast of England and has a potential generating capacity of up to 4,800MW.

Sale of a stake in Clyde Windfarm (Scotland) Ltd ("Clyde")

On 1 August 2017, SSE signed an agreement to sell a further stake in Clyde to Greencoat UK Wind Plc ("UKW") and GLIL Infrastructure LLP ("GLIL"). In March 2016, SSE announced the initial sale of Clyde equating to 49.9 per cent. of the existing 349.6MW operational wind farm. At the time, it was highlighted that when the commercial operation (expected at the end of August) of the 172.8MW extension begins, the equity stake in Clyde jointly owned by UKW and GLIL would be diluted to 30 per cent. with SSE retaining 70 per cent. Under the new agreement, on dilution, UKW and GLIL will acquire an additional 5 per cent. of Clyde, equating to 26.1MW, for a cash consideration of £67.8 million, before costs, taking their share of the total Clyde development to 35 per cent. UKW and GLIL also have the option to buy a further 14.9 per cent. of Clyde, equating to 77.8MW, for a cash consideration of £202.2 million, before costs. This option can be exercised between 1 April 2018 and 30 June 2018. If this option were to be exercised, SSE's share in Clyde would reduce to 50.1 per cent. with UKW and GLIL owning the remaining 49.9 per cent. The Clyde windfarm is located in South Lanarkshire and the original wind farm has a combined generating capacity of 349.6 MW from 152 Siemens 2.3MW turbines. The Clyde Extension consists of 54 Siemens 3.2 MW turbines with a total capacity of 172.8 MW.

Scottish Hydro Electric Power Distribution plc

Scottish Hydro Electric Power Distribution plc ("SHEPD") was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC213460 on 4 December 2000 for an unlimited term, and is a 100 per cent. indirectly owned subsidiary of SSE. SHEPD was originally incorporated as Dunwilco (847)

Limited, and on 8 January 2001 it changed its name to SSE Distribution (North) Limited. On 8 March 2001 it changed its name to Scottish Hydro-Electric Power Distribution Limited and on 25 August 2006 it changed again to become Scottish Hydro-Electric Power Distribution plc. On 2 February 2007 the hyphen was dropped and it became Scottish Hydro Electric Power Distribution plc.

The north of Scotland electricity distribution business of SSE was transferred to SHEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SHEPD's principal activity is the distribution of electricity in the Scottish Hydro Electric region, owning, maintaining and operating the electricity network of over 49,000 kilometres of overhead lines and underground cables. SHEPD serves around 0.7 million customers in a region which covers 54,900 square kilometres and includes northern mainland Scotland including the Highland and Grampian regions, parts of the Tayside, Central and Fife regions and rural parts of Strathclyde, together with all the Scottish islands including the Orkney and Shetland Islands and the Western Isles. The region has a population of approximately 1.2 million and a diversified customer base including domestic, commercial and industrial sectors.

Board of Directors of SHEPD

As at the date of this Prospectus, the members of the Board of Directors of SHEPD, all of Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ, United Kingdom are as follows:

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Rob McDonald	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

There are no potential conflicts of interest between the duties of any of the members of the Board of Directors of SHEPD and his/her private interests and/or other duties.

Scottish Hydro Electric Transmission plc

Scottish Hydro Electric Transmission plc (“**SHE Transmission**”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC213461 on 4 December 2000 for an unlimited term, and is a 100 per cent. indirectly owned subsidiary of SSE. SHE Transmission was originally incorporated as Dunwilco (848) Limited and on 8 January 2001 changed its name to SSE Transmission Limited. On 8 March 2001 it changed its name to Scottish Hydro-Electric Transmission Limited and on 2 February 2007 the hyphen was dropped and it became Scottish Hydro Electric Transmission Limited with a further name change to Scottish Hydro Electric Transmission plc on 25 October 2012.

SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,000km of high voltage overhead lines and underground cables covering around 70 per cent. of the land mass of Scotland, serving remote and in some cases island communities. As the licensed transmission company for an area with a significant amount of generation from renewable resources seeking to connect to the electricity network, SHE Transmission is required to ensure that there is sufficient capacity for projects committed to generating electricity.

Board of Directors of SHE Transmission

As at the date of this Prospectus, the members of the Board of Directors of SHE Transmission, all of Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ, United Kingdom are as follows:

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Rob McDonald	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

There are no potential conflicts of interest between the duties of any of the members of the Board of Directors of SHE Transmission and his/her private interests and/or other duties.

Southern Electric Power Distribution plc

Southern Electric Power Distribution plc (“**SEPD**”) was incorporated with limited liability in England and Wales under the Companies Act 1985 with registration number 04094290 on 23 October 2000 for an unlimited term and is a 100 per cent. indirectly owned subsidiary of SSE. SEPD was originally incorporated as Dunwilco (828) Limited, and on 10 January 2001 changed its name to SSE Distribution (South) Limited with a further name change to Southern Electric Power Distribution plc on 6 March 2001.

The south of England electricity distribution business of SSE was transferred to SEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SEPD’s principal activity is the distribution of electricity in the Southern Electric region, owning, maintaining and operating the electricity network of around 77,000 kilometres of overhead lines and underground cables. SEPD serves around 3.0 million customers in a region which covers 16,900 square kilometres and includes the counties of Berkshire, Wiltshire, Dorset, Oxfordshire and Buckinghamshire. The region has a population of approximately 6 million and a diversified customer base including domestic, commercial and industrial sectors.

Board of Directors of SEPD

As at the date of this Prospectus, the members of the Board of Directors of SEPD, all of 55 Vastern Road, Reading RG1 8BU, United Kingdom are as follows:

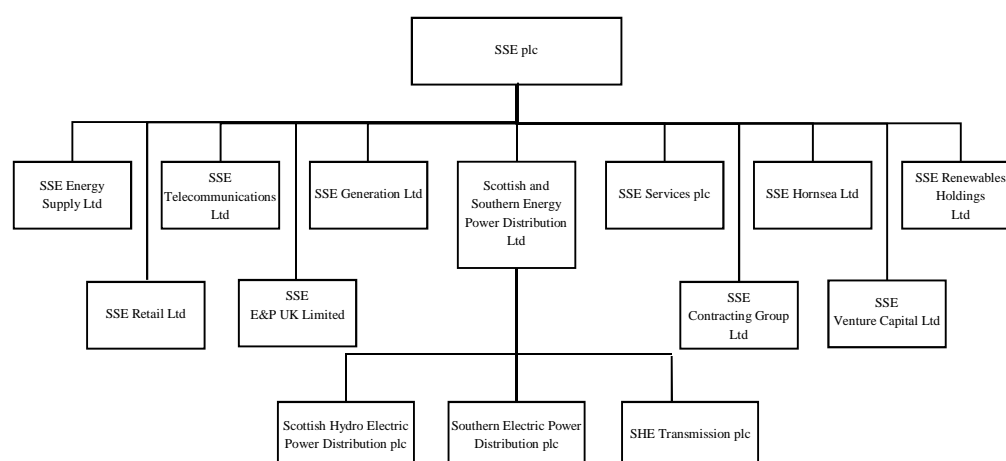
Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Rob McDonald	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities

Name	Title	Significant Outside Activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

There are no potential conflicts of interest between the duties of any of the members of the Board of Directors of SEPD and his/her private interests and/or other duties.

The SSE Group

SSE Group — Principal Subsidiaries as at 31 July 2017



SSE believes that it is the only company listed on the London Stock Exchange which owns, operates and invests in a balanced group of economically-regulated energy businesses, such as electricity networks, and market-based energy businesses, such as energy supply and electricity generation. SSE’s core business is to supply energy in a reliable and sustainable way. Its strategy is to deliver the efficient operation of, and investment in, a balanced range of economically-regulated and market-based businesses in energy production, storage, transmission, distribution, supply and related services in the energy markets in Great Britain and Ireland. This means: (i) operating and investing efficiently in order to meet the long term needs of its customers whilst maximising returns to investors; (ii) maintaining a balanced range of economically-regulated businesses allowing SSE to avoid over-exposure to any one part of the energy sector whilst enabling it to pursue opportunities where appropriate; (iii) having production, storage, transmission, distribution, supply and related services, which create both diversity of SSE’s business activity and a focus on a single sector: energy; and (iv) Great Britain and Ireland give SSE a clear geographical focus, allowing it to maintain and deploy its significant experience and an understanding of the markets in which it operates and to focus on the needs of the customers which it serves.

In the year ended 31 March 2017 based on customer numbers SSE estimates that approximately 45-50 per cent. of adjusted operating profit in retail was attributable to its activities in each of Scotland and the rest of the United Kingdom, with the remaining 1-5 per cent. in the Republic of Ireland.⁹

Networks

SSE has an ownership interest in five economically-regulated energy network companies: (i) Scottish Hydro Electric Transmission plc (100 per cent.); (ii) Scottish Hydro Electric Power Distribution plc (100 per cent.); (iii) Southern Electric Power Distribution plc (100 per cent.); (iv) Scotland Gas Networks plc (33.3 per cent.); and (v) Southern Gas Networks plc (33.3 per cent.). In this Prospectus, this business segment is referred to as “Networks”.

⁹ Based on customer numbers of 1.07 million, 6.95 million and 0.45 million for Scotland, the rest of the United Kingdom and the Republic of Ireland respectively.

The adjusted operating profit for Networks was £936.5 million for the financial year ended 31 March 2017, which was 50 per cent. of the Group's adjusted operating profit. SSE estimates that the total Regulated Asset Value ("RAV") of its economically-regulated 'natural monopoly' business was £7,679 million as at 31 March 2017, down £278 million from £7,957 million at 31 March 2016. As at 31 March 2017, the RAV comprised around: (i) £2,685 million for electricity transmission; (ii) £3,246 million for electricity distribution; and (iii) £1,748 million for gas distribution (i.e. 33.3 per cent. of Scotland Gas Network plc and Southern Gas Network plc's total RAV), compared with the RAV as at 31 March 2016 which comprised around: (i) £2,287 million for electricity transmission; (ii) £3,157 million for electricity distribution; and (iii) £2,513 million for gas distribution. For 2016/17 there has been a net reduction in RAV of £278 million as a result of the completion of the disposal of a 16.7 per cent equity stake in SGN in October 2016. RAV has increased by almost 50 per cent. since April 2010 and the RAV of SSE's five existing Network companies is now on course to reach close to £9.0 billion by 2020.

Through price controls, OFGEM sets the index-linked revenue the network companies can earn through charges levied on users to cover costs and earn a return on regulated assets. While the RIIO Price Control mechanism is complex, these economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the competitive Wholesale and Retail markets. While the overall shape of the networks may evolve, as the recent expansion of electricity transmission and sale of part of a stake in SGN show, they remain core to SSE's strategy in the short, medium and long-term and contribute significantly to its ability to deliver annual dividend increases.

In September 2016, SSE's three electricity networks businesses adopted a common trading name as Scottish and Southern Electricity Networks ("SSEN"). This new name and an accompanying rebranding process were developed following extensive engagement with customers, stakeholders and employees.

This change responds to the operating environment under the RIIO price controls, which incentivise all network operators to engage effectively with their customers and stakeholders in developing and implementing their business plans. SSEN believes that adopting a clearer, simpler and more distinctive identity will help to deliver improved accountability to the communities it serves, supporting its performance against key incentives.

SSEN has established an independent Stakeholder Advisory Panel to work alongside its Board to help scrutinise business performance and effectiveness in meeting its commitments under the RIIO-T1 and RIIO-ED1 Price Controls. The Panel will consist of a Chair and six members, recruited to reflect a broad range of external interests, skills, knowledge and experience. Through its work, the Panel will bring stakeholder insight and challenge to SSEN's decision-making at the highest level, helping to drive improvement in key processes and outcomes for customers.

Electricity Transmission

SSEN, operating under licence as Scottish Hydro Electric Transmission plc, is responsible for maintaining and investing in the electricity transmission network in the north of Scotland.

Since the start of the RIIO T1 price control in 2013, SSEN's capital investment in its transmission network has totalled close to £1.9 billion, playing a pivotal role in providing the supporting infrastructure to facilitate the UK's transition to a low carbon economy. With its committed pipeline of investment, it expects to increase its RAV from £2.69 billion as at 31 March 2017 to over £3.0 billion by 31 March 2018.

Good progress continues to be made with the delivery of SSEN's flagship Caithness-Moray transmission link, which remains on schedule to be delivered on time and within the allowed spend. With an agreed allowance of £1,118 million (2013/14 prices), the project is the largest single investment undertaken by the SSE group to date.

A number of key onshore enabling works related to the project were completed in 2016/17, including the first part of the new Blackhillock Substation, which was successfully energised in September 2016, and the first element of the northern part of the project, which was successfully energised at Dounreay Substation in March 2017.

The manufacture of the subsea cable is now complete and work to clear the seabed of rocks and boulders was successfully completed in March 2017. Work has begun to create a trench on the Moray Firth seabed in advance of the subsea cable installation, which is due to be installed by a specialised cable-laying vessel during 2017. The Caithness-Moray reinforcement remains on course to be commissioned by the end of 2018.

Following successful energisation of the 220km Beaulieu-Denny overhead line replacement in November 2015, SSEN engaged with OFGEM regarding recovery of efficiently incurred costs. In January 2017, OFGEM determined that the full £58.8 million (2009/10 prices) of additional costs were efficient and allowed £27.8 million to be included as an Asset Value Adjustment Event, with the additional revenue stream starting in 2017/18. The remaining £31 million will be recovered at the end of the RIIO-T1 period in 2021/22.

In advance of the closure of the Renewables Obligations Scheme, there has been an increased demand for SSEN to provide connections to its transmission network for renewable energy developers.

SSEN connected over 500MW of renewable electricity in total, including that connected at distribution level, to its transmission network in 2016/17, which is the highest combined capacity to connect to the north of Scotland transmission network in a single year since electricity privatisation.

SSEN's delivery of these projects and other strategic investments has played an essential part in facilitating the rapid growth of renewable energy within its licence area, bringing the total connected generation capacity supported by its transmission network, including that connected at distribution level, to over 5GW, of which over 4.5GW is from low carbon renewable sources.

SSEN expects to connect a significant number of new renewable energy projects to its transmission network throughout the remainder of this Price Control to March 2021, subject to those renewable projects reaching financial close.

SSEN remains fully committed to bringing forward proposals for new transmission links to the Scottish Islands. A Government consultation on the treatment of non-mainland GB onshore wind projects took place during 2016/17 and SSEN continues to await the outcome of the consultation and subsequent developer commitment before it will be in a position to submit a 'Needs Cases' to OFGEM for the Western Isles and Shetland. SSEN continues to engage with affected stakeholders in order to progress the development of the links in anticipation of the consultation outcome.

SSEN continues to engage constructively with OFGEM in relation to the development of the regime for Extending Competition in onshore Transmission (ECIT). Whilst it is not yet clear when ECIT might be implemented, the introduction of competition poses some potential risks to future growth and revenue, but also presents opportunities. With a strong track record for connecting renewables on time and within budget, SSEN believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements once the regime is implemented.

To support the successful integration of new High Voltage Direct Current (HVDC) infrastructure on its own network and elsewhere in Great Britain, SSEN led the development of the National HVDC Centre in Cumbernauld via OFGEM's Electricity Network Innovation Competition. The centre, which formally opened in April 2017, allows engineers to replicate the complexities of the future transmission system in real time, using powerful computer simulators to enable potential risks to be identified and addressed.

Innovation continues to play a key role in meeting the needs of customers, with SSEN utilising ACCC (Aluminium Conductor Composite Core) Monte Carlo conductor for the first time on its network to provide the connection for the combined Bienneun (Blue Energy, 108.8MW) and Bhlaraidh (SSE Renewables, 108MW) wind farms. This innovative technology has enabled SSEN to reduce costs and timescales whilst also mitigating the visual and environmental impact of the connection by the use of reconductoring and strengthening of the existing 132kV steel towers which dispensed with the need for the erection of new additional trident wood poles. SSEN expects to deploy this innovative technology on a number of other projects in the years ahead.

Under the RIIO-T1 price control, Transmission Owners are encouraged to be more responsive to changing stakeholder needs, with financial incentives based on performance in this area. The views of stakeholders have played a key part in SSEN's success in electricity transmission under the current price control period and will remain central to its future business plans.

Stakeholders have played a major part in the development of SSEN's Visual Impact of Scottish Transmission Assets (VISTA) policy, which seeks to mitigate the impacts of existing transmission infrastructure in National Parks and National Scenic Areas. In August 2016, SSEN received OFGEM approval for its proposed approach and expects to set out a series of proposed projects to take forward for funding from OFGEM later in 2017.

SSEN's first priority is to provide a safe and reliable supply of electricity to the communities its transmission network serves. SSEN has established a dedicated and experienced team within its transmission business to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology. During the current period of rapid growth in transmission development, including commissioning of substantial new assets and connection of large volumes of renewable generation capacity, SSEN has maintained an impressive reliability of over 99.9 per cent.

SSEN is at the midpoint of the RIIO-T1 price control which ends March 2021 and is now starting to develop its business plan for the next price control period. During 2017/18 SSEN will undertake a period of engagement and consultation with key external stakeholders, including the Stakeholder Advisory Panel, to help shape and influence its future business plan commitments.

Electricity Distribution

SSEN is responsible for maintaining electricity distribution networks that supply over 3.7 million homes and businesses, operating under licence as Scottish Hydro Electric Power Distribution ("**SHEPD**") north of the central belt of Scotland, the Mull of Kintyre and the Scottish Islands and as Southern Electric Power Distribution ("**SEPD**") in central southern England.

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2017 was 39.3TWh, compared with 39.5TWh in the previous year. Capital expenditure in electricity distribution networks was £284.7 million in the year to 31 March 2017, compared to £258.3 million in the previous year.

Now in the second year of the RIIO-ED1 price control, SSEN's electricity distribution business continues to adapt to the regulatory framework and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making.

The outcomes of the incentive based framework within which SSEN operates are increasingly dependent on customer opinion and feedback. Financial performance is reflected against: the Interruption Incentive Scheme; OFGEM Customer Satisfaction Measures; Incentive in Connections Engagement; Complaints Performance and Stakeholder Engagement and Customer Vulnerability.

By making the concerted effort to focus on its people and its processes, SSEN has made significant changes to ensure it is meeting its customers' needs and delivering against the measures as set by the RIIO ED1 price control. This has ensured SSEN is able to deliver outputs aligned to the expectations of its customers, stakeholders and the regulator, while delivering a fair financial return to investors.

As part of RIIO-ED1, SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions (CI) and Customers Minutes Lost (CML), which include both planned and unplanned supply interruptions.

During 2016/17, Customer Interruptions rose to 68 (SHEPD; 66 in 15/16) and 48 (SEPD; 47 in 15/16) per 100 customers. Customer Minutes Lost rose to 60 minutes (SHEPD; 55 in 15/16) and 43 minutes (SEPD; 41 in 15/16) per customer. Despite this marginal rise in both CI and CML metrics, SSEN continues to outperform the pre-determined targets set by OFGEM.

When planned outages, which serve to improve network reliability, are excluded, both CI and CMLs decreased in comparison to 2015/16 in the SHEPD licence area, highlighting an improved performance in restoring power in fault situations. Despite an increase in extra-high voltage (EHV) faults in the SEPD licence area, performance improved in the high voltage (HV) and low voltage (LV) networks reflecting an increased investment in automation schemes and the implementation of improved business processes prioritising customer restoration.

SSEN's commitment to providing a safe and secure electricity supply and to minimise unplanned interruptions requires a continuous programme of investment in the network. During 2016/17, SSEN's programme of network investment included reinforcements, upgrades to automation and tree cutting. The success of the programme is providing an improved service for customers as well as a fair return for SSEN through the incentive mechanism.

The regional operations model, now in its second year, continues to deliver benefits in operational efficiency and in the improved service SSEN provides to its customers and communities. This includes faster response times thanks to a focus on speed of fault restoration and targeting investment in key circuits to improve network reliability.

In 2016/17 SSEN made significant improvements to its customer service processes and in the way it engages and communicates with its customers. This has increased customer awareness of SSEN and has helped to improve broad measure incentive performance across the business.

By improving customer contact experience, including the use of proactive outbound calls, performance against the RIIO-ED1 customer satisfaction measure increased significantly, from £1.6 million (2015/16) to £2.75 million (2016/17). Complaints performance also rose, with SSEN resolving 78per cent. of complaints within 24 hours (65per cent. in 2015/16) and 98per cent. within 31 days (95per cent. in 2015/16), resulting in no incentive penalty (potential -£3.1 million). This improved performance will feed into SSEN's regulated income in 2018/19.

Ahead of winter 2016/17, SSEN delivered an awareness campaign, including advertising on TV, radio and digital outputs. The campaign promoted the new single emergency power cut number 105; what to do during a storm; and to promote the services it provides for customers, including those who may need extra help through SSEN's Priority Service Register. This was followed up by a customer communication delivered to all 3.7m customers in its two distribution areas in January 2017. As well as driving a general increase in awareness of SSEN, these measures have resulted in a three-fold increase in sign-ups to SSEN's Priority Service Register.

SSEN delivered a number of initiatives in 2016/17 to help protect its most vulnerable customers and seek to improve performance in the Stakeholder Engagement and Consumer Vulnerability incentive.

In November 2016, SSEN became the first network operator to meet the requirements of the British Standard Inclusive Service Provision (ISP) BS18477:2010 for two years in a row. The achievement outlines the critical procedures to ensure inclusive services are available and accessible to all customers equally, regardless of their personal circumstances.

In 2016/17, SSEN created a vulnerability mapping portal, which provides it with detailed demographic information about its communities. The bespoke tool allows SSEN to make informed decisions about assistance during power cuts, planned supply interruptions and where to promote its Priority Service Register.

In their joint Call for Evidence in November 2016, BEIS and OFGEM put forward their view on the transition from the traditional Distribution Network Operator model to a prominent Distributed System Operator (DSO) role. SSEN believes this transition will meet the needs of a flexible and de-carbonised electricity system, serving to protect customers' interests whilst ensuring the network remains resilient and affordable.

In 2016/17, SSEN's innovation projects provided some significant findings, which will ultimately inform this transition:

- The New Thames Valley Vision project explored a number of innovative methods, including network monitoring, battery storage and thermal storage. This was done to anticipate and manage the growth of new technologies connecting to the electricity network, including electric vehicles, heat pumps and solar

panels. Its findings detail how network reinforcement can be avoided by the use of smart technologies, such as Active Network Management.

- Following the My Electric Avenue project, which identified the impact of electric vehicles on the electricity network; SSEN has taken these findings and launched a new project – Smart EV. The aim of the project is to create and collaborate with other DNOs, National Grid, DECC and OFGEM on an industry-accepted solution for managing future EV charging, in the form of an Engineering Recommendation. This will help DNOs protect the LV network and allow EVs to connect to networks.
- The Shetland-based Northern Isles New Energy Solutions (NINES) project allowed SSEN to use large and small scale energy storage solutions and new monitoring and control systems, to deliver an Active Network Management (ANM) solution on the islands. It allowed for a 200per cent. increase in renewable energy contribution on Shetland by helping to manage grid constraints more efficiently in real time. The project’s findings can be modelled across the wider-GB electricity network and they will play a vital role in it adapting to a flexible and de-carbonised electricity system.

SSEN’s innovation projects are designed to help anticipate and prepare the electricity network operators for future energy scenarios. It continues to deploy technologies, such as Constrained Managed Zones and LiDAR technology, at a business-as-usual level to develop a system that is transparent, reliable and affordable.

SSEN will continue to engage with industry, policy-makers and the regulator in support of a phased approach to the DSO transition whereby impacts can be carefully reviewed and the best interests of customers maintained.

The Shetland isles are not connected to the GB Main Island Transmission System and all Shetland’s energy needs are met from a range of generation sources located on the islands, underpinned by the existing Lerwick Power Station. As Lerwick Power Station is reaching the end of its operational life, SSEN is conducting a competitive tender to secure the future of Shetland’s electricity supply. This process will identify the most economic and efficient solution to meet Shetland’s needs, as required by the energy regulator, OFGEM. SSEN has appointed a preferred bidder as a joint project between National Grid Interconnector Holdings Ltd and Aggreko UK Ltd, OFGEM approval is now being sought and if granted contracts are expected to be signed later in 2017.

The implementation of Scotland’s National Marine Plan has introduced a number of changes to Marine Planning Policy which may have implications for the way in which subsea cables are installed within Scotland’s waters. The Marine Plan now includes a clear preference for burial or protection as opposed to the approach successfully adopted by SSEN over many decades of surface laying its subsea cables.

SSEN has developed a Cost Benefit Analysis methodology to support each subsea cable licence application to Marine Scotland. The CBA is designed to ensure that all stakeholder views are considered and factored into the proposed installation method and that any additional costs are justified through a robust economic and evidenced based analysis.

SSEN expects to submit its first application to Marine Scotland under the new marine planning regime, supported by the output of its CBA methodology, in September 2017.

Gas Distribution

SGN manages the network that distributes natural and green gas to 5.9 million homes and businesses across Scotland and the south of England and is currently building a third distribution network comprising around 700km of new gas pipelines in the west of Northern Ireland, where some 40,000 customers will be able to connect to mains natural gas for the first time. In line with its reduced equity holding, SSE now receives 33.3 per cent. of the distributable earnings from SGN and, through a managed service agreement, continues to provide some back-office support.

As at 31 March 2017, SGN’s total RAV was £5,249 billion (including SSE’s share of £1,748 billion). With the current Gas Distribution Price Control passing its mid-point review with no material changes from OFGEM, SGN continues to focus on delivering all its outputs under the RIIO framework. It is also focused on maximizing

regulatory incentives while the focus of its innovation programme is to ensure gas has a secure future in the UK energy mix. At the same time, the management team ensures all its operations are run safely and efficiently providing customers with a safe and reliable gas network. SGN has invested significantly across the business, driving the implementation of innovative technology for the benefit of customers, the gas industry as a whole and the environment in which it operates, achieving several industry firsts.

Continued investment enables SGN to deliver a safe and reliable network for customers; minimise its impact on the environment; engage with and communicate its work to stakeholders and; deliver new customer-driven initiatives to help reduce fuel poverty and increase awareness of Carbon Monoxide dangers. SGN is committed to developing its workforce, driving diversity and inclusion throughout the company while building even stronger relationships within the diverse geographic and demographic communities it serves.

SGN has embedded a 'One SGN' ethos throughout the company resulting in outstanding customer satisfaction scores (UK No.1 GDN in 2016/17), and a reduction in the number of complaints (60 per cent. reduction overall since 2013). In terms of operational performance and safety, SGN has again exceeded the regulator's 97 per cent. emergency standard of attending uncontrolled public reported gas escapes within one hour.

Retail

SSE is one of the largest energy suppliers in the competitive markets in Great Britain and Ireland. As at 31 March 2017, it supplied electricity and gas to 8 million household and business accounts, compared to 8.21 million as at 31 March 2016 (as at 30 June 2017 this figure is now 7.8 million). It also provides other related products and services including telephone, broadband and boiler care to 0.47 million household and business customers as at 31 March 2017, compared to 0.40 million households as at 31 March 2016. The Retail segment includes the Enterprise business which provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way. Taken together these businesses contribute balance to the SSE Group and demonstrate SSE's commitment to efficient operations and industry-leading customer service.

The rapidly evolving competitive market for energy and related services presents a number of challenges for traditional energy supply business models, which must evolve and adapt in order to be sustainable in the medium to longer term. SSE has already made significant progress in its transformation from a commodity provider to becoming a retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading the sector in customer service. This strategy is designed to help improve SSE's ability to retain its valued customers, offset the impact of the continued reduction in household energy demand and ensure it is well positioned to capitalise on market developments in energy and related services in the short, medium and long term.

Energy supply and Energy Related Services

SSE Retail has a long-standing strategy to respond to these and other risks by becoming a market-leading retailer of energy and essential services, by digitalising, diversifying and aiming for high levels of customer service. This approach will enable SSE to build stronger, more enduring customer relationships based on engagement, service and value.

Owing to ongoing competitive pressures, in the 12 months to 31 March 2017, SSE's energy customer accounts in Great Britain and Ireland fell from 8.21 million to 8 million. This represents the smallest decline in SSE's customer numbers since 2013, due to the impact of efforts to improve retention and attract more new customers to SSE.

SSE recognises that, as an essential service provider, it must be both sensitive and flexible in how it deals with customers. In August 2016, SSE became the first energy supplier in Great Britain to commit to achieving the British Standard for Inclusive Service Provision. This represents the gold standard in recognising and catering for vulnerability in all its forms and SSE is currently working towards achieving this accreditation in the early part of 2018.

This builds on the additional training SSE has provided to customer-facing staff in areas like mental health and, specifically, dementia, to ensure its advisers are equipped to provide customers with the best possible support.

In addition to the £5 million fund set up to provide extra financial assistance to vulnerable customers following SSE's household energy price increase from 28 April 2017, SSE helps vulnerable customers manage their energy costs in a number of enduring ways:

- through the Warm Home Discount scheme, as of 31 March 2017 SSE had allocated over 275,000 £140 rebates and, by the end of the scheme year on 31 May 2017, SSE expects to spend around £46.4 million, helping over 300,000 customers in total;
- SSE's customer service advisers proactively identified and referred over 5000 customers for benefit entitlement checks during the year, with more than 2700 customers successfully completing the check, resulting in an average increase in income of more than £3,200 a year per customer;
- SSE's Priority Assistance Fund provides additional support to low income and vulnerable customers, including debt relief, free energy efficiency advice, and help with bespoke payment arrangements;
- SSE also offers a free Careline priority service, dedicated to helping customers who are elderly, disabled or have special medical needs; and
- in accordance with its licence, between the start of October and the end of March (or longer if the weather is unseasonably cold), SSE has put in place a no-disconnection policy covering all household customers and, in addition, SSE is a member of Safety Net, which is an additional voluntary commitment overseen by Energy UK. This commits signatory suppliers to never knowingly disconnect vulnerable customers at any time.

Given rising prices, SSE aims to engage constructively and understandingly with customers in arrears as early as possible, ensuring that support is provided for those struggling with their energy costs and that payment plans are manageable.

As outlined in its Treating Customers Fairly Statement, published in August 2016, SSE works hard to maintain the standards and quality of service that customers expect: listening to customers, making it easy for customers to deal with them, looking after customers when they need extra help and putting things right if there is a problem. SSE maintained a strong position in the Citizens Advice Energy Supplier Performance Report through the course of 2016/17, setting a new record in June with a complaints score of just 22.5 per 100,000 customers for the quarter, down from 47.7 at the same point in 2015/16. SSE ended the year with a further improved score of 20.5. SSE aims to maintain high standards in 2017/18 and be recognised for this by the new, more holistic energy supplier customer service comparison tool, which has superseded the Supplier Performance Report.

As part of efforts to further diversify its Retail business, SSE has expanded its customer base in energy-related services including boiler cover, electrical wiring and home broadband and telephone to 0.5 million customers. SSE has now completed work enabling it to offer its boiler servicing, repair and cover and electrical wiring cover to all customers across Great Britain for the first time. The national offer has improved through offering a range of value-for-money offers, including free boiler recovery for SSE energy customers. SSE is also offering M&S Home Services as part of its white label partnership with M&S Energy. SSE is already seeing the retention benefits of providing customers with a broader range of services and will continue efforts to cross-sell other home and essential services to add more value for its energy customers in 2017/18.

SSE is clear that its business is built on its customers and that, for its Retail business to be sustainable in the long term, it must have active, informed and engaged relationships with them. In February 2017, SSE published a report entitled 'Doing more for our customers', setting out what it is doing to build and sustain those customer relationships.

As well as providing fair prices and high-quality customer service, SSE seeks to reward its customers' loyalty, recognising that they have chosen SSE from the 50 or more other suppliers competing for their custom. During 2016, SSE introduced a range of offers targeted exclusively at loyal SSE customers, including a free 'boiler rescue'

potentially worth over £300, where customers subsequently sign up to boiler cover and an innovative ‘no-ties’ broadband offer.

SSE also aims to engage and reward its customers through the things that they enjoy most, so the SSE Reward programme engages customers by offering early access to tickets and money-can’t-buy experiences at some of Britain’s biggest entertainment venues.

SSE believes that Business Energy performed strongly during 2016/17, driven by a continued focus on meeting business customers’ core energy needs, ongoing efforts to control operating costs and an enhanced proactive approach to its key customers and partners.

Over the past year, SSE Business Energy has adapted the way in which it engages with customers, offering a customer service commitment recognised by Citizens Advice as the best performing non-domestic energy provider at handling complaints from small business customers. Business Energy has continued to build its offering in the commercial sector and has launched a new 100 per cent. renewable energy proposition known as ‘SSE Green’.

For micro business customers, SSE continued its emphasis on Treating Customers Fairly (TCF) by relaunching its TCF Statement and establishing a performance team to focus on operational excellence by driving continuous improvement. Third Party Intermediaries (TPIs) remain an important channel for Business Energy growth and SSE continues to provide ongoing support to its TPIs by providing access to its industry experts via sales channels, engagement sessions and regular industry updates.

As of 31 March 2017, SSE had 0.45 million Business Energy customer accounts, compared with 0.47 million as of 31 March 2016.

Supplying energy and essential services across Ireland

SSE Airtricity is the second largest provider of energy and related services in Ireland (“**ROI**”) and Northern Ireland (“**NI**”), and is the only energy retailer to operate in all of the competitive gas and electricity markets across the island. As at 31 March 2017, SSE Airtricity supplied electricity and natural gas to 0.79 million household and business customer accounts in ROI and NI, representing a 17 per cent. share of the total combined gas and electricity markets.

SSE Airtricity’s focus is on excelling in customer service as a key differentiator in what are highly competitive, price-driven markets. The company’s focus on using digitised platforms to enable customers to self-serve using their choice of device at times that suit them is another key differentiator, with 73 per cent. of all customer interactions completed via digital channels.

This continuous drive to deliver excellent customer experience has received extensive external recognition. In November 2016, SSE Airtricity was named Customer Contact Centre of the Year by CCMA Ireland, and, in March 2017, the company won awards for Best Customer Service and Best Online Service from leading internet comparison site Bonkers.ie. In October 2016, SSE Airtricity was named the top electricity provider for business customer satisfaction in the Commission for Energy Regulation’s (CER) Consumer Survey Report, receiving an overall satisfaction rating of 91 per cent. from SMEs.

In late 2016, SSE Airtricity acquired 50 per cent of Fusion Heating Ltd., a leading energy services contractor in NI. The acquisition enhances SSE Airtricity’s retail energy offering, and further progresses the company’s diversification to become a retailer of essential services across the island.

On 31 March 2017, SSE Airtricity increased its regulated natural gas prices in NI by 7.6 per cent. for home and small business customers. The increase was examined and approved by the Utility Regulator and is the first increase in the company’s prices since April 2013. The change follows a four-year period during which SSE Airtricity either held or reduced its standard gas prices in the regulated market, including a 10 per cent. reduction from 1 April 2016.

In deregulated markets, SSE Airtricity reduced its household electricity prices in NI by 10 per cent. from 1 June 2016. In ROI, the company reduced both its electricity and natural gas prices by 5 per cent. with effect from 1 August 2016.

Enterprise

SSE Enterprise provides multi-disciplined utility services for industrial, commercial and public sector customers across the UK. Its five businesses, comprising Telecoms, Utilities, Rail, Contracting and Slough Heat and Power, serve a broad client base with a collective focus on delivering efficient, reliable and bespoke solutions to meet individual client needs.

While the financial performance in the last year reflects the challenging markets SSE Enterprise operates in, the business has established strong foundations for future profitability, with a number of stable revenue streams delivering, in its view, favourably. SSE Enterprise considers that while its contracting business did not deliver as expected, a process of transformation is underway to refine its operating model in an effort to drive further efficiency and sustainable growth.

SSE Enterprise has a renewed focus under the stewardship of its new Managing Director, and several strategic appointments to the wider leadership team are targeting leaner operations and improved business development and execution capabilities. The business is anticipated to become more efficient and competitive across a range of sectors, whilst continuing to deliver innovative solutions to meet the evolving needs of its customers. SSE Enterprise is building a business that is fit for the future and has made progress in 2016/17 with specific activity detailed below:

- SSE Enterprise Telecoms has secured important new clients and continued to grow its network, extending its high-bandwidth fibre broadband services. The business continues to connect major UK commercial datacentres, providing direct customer access to a majority of the leading suppliers of Cloud based business services. It has also invested in developing its London City fibre network to connect key new commercial buildings.
- SSE Enterprise Rail delivered a strong performance this year. Safety performance was optimal, and the business grew with the team focused on winning work with new clients and associated business streams, including significant contract wins with Network Rail and Transport for London.
- SSE Enterprise Utilities now serve almost 7,000 customers connected to low carbon heat networks across the UK and over 13,000 connected to water networks. With over 400 electrical networks contracted, and managing around 178,000 gas connections, it is firmly established as a market leader in multi-utilities, with ambitious plans for growth in both existing and new markets.
- Slough Heat and Power has further established itself within the Enterprise business and delivered its highest ever profit in 2016/17. Consistent and focused stakeholder engagement with key customers has allowed its business to optimise electricity demand forecasting. It is also in the process of doubling its electricity import capacity from the main grid to the Slough Heat and Power network.
- SSE Enterprise Contracting had a difficult year, but has reinforced its commitment to accelerate critical growth. The business has recently attracted new and significant contract wins with considerable opportunities in the pipeline. A new leadership team is in place to maximise these opportunities in 2017/18.

Wholesale

SSE's Wholesale segment comprises the following business areas: Energy Portfolio Management ('EPM') and Electricity Generation; Gas Storage; and Gas Production. It makes a sustainable contribution to the fulfilment of SSE's core purpose and achievement of its financial goals through excellence in the flexible provision, storage and delivery of energy and related services for customers in wholesale energy markets in Great Britain and Ireland.

The markets in which SSE's Wholesale businesses operate continue to be impacted by a number of key long-term trends and developments, including an uncertain macroeconomic environment; shifts in commodity prices; government intervention; regulatory change; and the ongoing transition to a low carbon economy. SSE's Wholesale business therefore has to continually review its portfolio of assets, contracts and investment opportunities in the context of a changing market, spreading risk in order to deliver returns in varied and challenging conditions.

SSE currently owns or has an ownership interest in 10,643MW of capacity, which comprised at 31 March 2017: (i) 4,013MW of gas-fired generation capacity (Great Britain); (ii) 1,292MW of gas and oil fired generation capacity (Ireland); (iii) 2,029MW of coal fired generation capacity (Great Britain) (including waste to energy capacity); and (iv) 3,309MW of renewable generation capacity (Great Britain and Ireland) (including pumped storage).

Energy Portfolio Management

EPM is responsible for ensuring SSE has the energy supplies it requires to meet the needs of customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; selling the power output from this plant; where appropriate, securing value and managing volatility in volume and price through the risk-managed trading of energy-related commodities; and providing energy solutions and services to customers.

The wholesale price of energy can fluctuate significantly due to a number of factors including the economy, the weather, customer demand, infrastructure availability, and political and world events. EPM seeks to manage the impact of these variables by maintaining a diverse and well-balanced portfolio of contracts, and trading positions. EPM provides a route-to-market for SSE's Generation assets and helps Energy Supply manage its commodity risk. In doing so, SSE has greater ability to manage the impact from wholesale energy price volatility and more scope to deliver the investment needed in Generation and Gas Production because the risks associated with large-scale and long-term investments are contained by the balanced nature of SSE's energy businesses.

Energy Generation (Renewables)

Based on renewable energy capacity in operation, SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland. As at 31 March 2017, it had 2,731MW of renewable energy capacity in operation in Great Britain (as well as 578MW in Ireland), including its share of joint ventures. The Great Britain portfolio comprised (net): (i) 1,150MW of conventional hydro and 300MW of pumped storage; (ii) 900MW of onshore wind; (iii) 344MW of offshore wind; and (iv) 37MW dedicated biomass. Total electricity output from all of SSE's renewable resources in Great Britain and Ireland (including pumped storage) was 8.0TWh in the year to 31 March 2017, compared to 9.7TWh in the year to 31 March 2016. The primary driver for this difference was the weather: there was lower rainfall and less windy conditions in 2016/17 than in the previous year. Overall renewable capacity including, conventional hydro and pumped storage, increased, from 3,275MW to 3,309MW with the delivery of the 34MW Tievenameeta onshore wind farm in Northern Ireland, which entered commercial operation in February 2017. The renewable energy portfolio retained high availability to generate electricity throughout the period.

Onshore Wind Farms

For SSE's onshore wind portfolio, clarity regarding which projects remain eligible for RO support was provided through the definition of 'grace periods'. Future development options for later onshore wind projects are being explored in light of the policy changes referenced above.

SSE has four onshore wind projects under construction which will qualify for the Northern Ireland and UK RO: (i) Dunmaglass (94MW) – the project is now in the final stages of construction and is scheduled for completion by summer 2017; (ii) Clyde Extension (SSE share 173MW) – turbine erection is advanced and the project is expected to be fully operational by autumn 2017; (iii) Bhlaraidh (108MW) – turbine erection is advanced and the project is expected to be fully operational in late 2017; and (iv) Slieve Divena 2 (19MW) – construction of this project in Co. Tyrone is progressing well and is expected to be fully operational in summer 2017. SSE expects a fifth onshore wind project under construction to qualify for the UK RO: Stronelairg (225MW) (estimated cost of £140 million).

The judicial review appeal was upheld in SSE's favour by the Court of Session in July 2016. Full construction is now under way and is expected to be completed in 2018.

SSE has two onshore wind projects under construction which will qualify for Republic of Ireland REFIT 2 support: (i) Galway Wind Park (SSE share 120MW) - construction of this two-phase project totalling 174MW, making it Ireland's largest onshore wind farm, is due to be completed by autumn 2017; and (ii) Leanamore (18MW) – a new addition in Co. Kerry where construction is under way and is expected to be completed by end of 2017.

Future development options for onshore wind projects are being explored in light of the UK's current policy and regulatory framework.

SSE is continuing to advance its planning application for the Doraville development in Northern Ireland. In March 2017, it confirmed a new design layout which includes a reduction in turbine numbers and a change in turbine specification to optimise generation to 119MW.

Offshore Wind Farms

SSE's offshore work and resources are focused on the Beatrice offshore wind farm (588MW – SSE share 40 per cent./235MW) in the outer Moray Firth. The £2.6 billion project reached financial close in May 2016 and is progressing in accordance with the terms of the Investment Contract awarded by the Government in 2014. SSE's Joint Venture partners on the project are Copenhagen Infrastructure Partners (CIP) (35 per cent.) and SDIC Power (25 per cent.). Both onshore and offshore construction are now underway and the project is expected to be fully operational in 2019.

SSE has an interest in two further offshore wind farm developments: (i) Seagreen (Phase one up to 1,050MW – a 50:50 partnership with Fluor Limited); and (ii) Forewind (up to 4,800MW). Seagreen was subject to a judicial review in the Court of Session, which found in favour of the petitioner, RSPB, in July 2016. This decision was appealed in February 2017. On 16 May 2017, the Court of Session ruled in favour of developers and the Scottish government. Forewind has received consent for four separate 1,200MW projects in the Dogger Bank Zone. In March 2017, SSE and Statoil agreed to acquire Statkraft's stake in the consortium, taking their share to 37.5 per cent. each with Innogy holding the other 25 per cent. The three Joint Venture partner organisations will agree the best route forward for the projects.

Energy Generation (Thermal)

The amount of electricity generated by gas-fired, oil-fired and coal-fired power stations in which SSE has an ownership or contractual interest, including combined heat and power and biomass co-firing, was 11.2TWh in the six months to 30 September 2016, compared with 9.2TWh in the six months to 30 September 2015.

In the six months to 30 September 2016, the amount of electricity generated by gas and oil-fired power stations was 8.1TWh, while none was generated by coal-fired power stations. In comparison, 4.7TWh was generated by gas and oil-fired power stations and 0.6TWh was generated by coal-fired power stations in the six months to 30 September 2015.

OFGEM has consistently maintained that during the period to 2018/19 it expects electricity generation capacity margins to be lower than they have been historically due to weak market economics and the closure of older plants.

The Government, together with National Grid (as the System Operator) and OFGEM, addressed the issue through the implementation of the Capacity Market. SSE supports the Capacity Market as the best way to deliver security of supply at the lowest cost to consumers. It also supports the Government's recent changes which have strengthened the Capacity Market by creating a more level playing field between participants.

In December 2016, the Government procured a revised figure of 52.4GW in the auction for delivery in 2020/21. SSE pre-qualified 7,033MW of capacity and of this 3,239MW was successfully secured agreements worth £72.9 million.

In January 2017, the Government procured 54.4GW in a supplementary auction for delivery in 2017/2018. SSE pre-qualified 5,898MW of capacity and of this 4,451MW successfully secured agreements worth £30.9 million.

To secure the revenue arising from the Capacity Market, providers of generating capacity must produce electricity when the system requires it; failure to do so will result in penalties being levied.

SSE has an ownership interest in five gas-fired power stations that participate in the Great Britain electricity market:

- Medway (700MW wholly owned) has capacity obligations from 2017 through to 2021;
- Keadby (735MW wholly owned) has capacity obligations from 2017 through to 2021;
- Peterhead (1,180MW wholly owned) Up to 400MW can operate in the market, currently has a voltage control contract with National Grid until 30 September 2017; and
- Seabank (1,164MW) and Marchwood (840MW). SSE has a 50 per cent. stake in each of these gas-fired power stations, which have both taken on capacity obligations from 2017 through to 2021.

SSE supports the Government's policy to encourage investment in new gas-fired generation. It will continue to take a disciplined approach to developing options for new stations, including Keadby 2 in Lincolnshire and Abernedd in Port Talbot. SSE submitted an application to BEIS in August 2016 to vary the Abernedd planning consent to allow an OCGT station of up to 299MW.

SSE announced in February 2017 that it was undertaking a review of future options for Peterhead Power Station in Aberdeenshire. The station's location means it is required to pay significantly higher Transmission Entry Capacity (TEC) costs than other power stations on the electricity system. This puts it at a disadvantage in the Capacity Market auction and it has failed to secure a contract in any of the auctions to date. TEC has been reduced to zero from 1 April 2018 as a risk mitigation measure to avoid a substantial cancellation charge which would have applied if TEC had been cancelled later in the year. Should the review and engagement with stakeholders conclude that the station has an enduring future, SSE will reapply for TEC and, subject to receiving a satisfactory offer from National Grid, reinstate it. SSE is considering all possible options for the site during the review, which is expected to be concluded in the coming months.

SSE operates one wholly-owned, coal-fired power station, at Fiddler's Ferry (Cheshire, 1,995MW). The station provided ancillary services to National Grid in a one-year contract secured by tender which ended on 1 April 2017. Fiddler's Ferry has capacity obligations for three of the four units from 2017 through to 2019.

In the 12 months to 31 March 2017, SSE's 464MW Great Island CCGT station in Ireland (grid connection capacity set at 431MW) exported 2.4TWh of electricity, up 40 per cent. on the previous year. The improved generation performance was due to increased power demand and prevailing market conditions, including the improved position of gas plant relative to other generation types.

SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet the needs of customers. Multifuel is an important part of that strategy.

Multifuel Energy Ltd (MEL) (the SSE and Wheelabrator Technologies Inc. 50:50 joint venture) operates a 68MW multifuel generation facility known as Ferrybridge Multifuel 1 (FM1) in Knottingley, West Yorkshire. FM1 has now processed over 1 million tonnes of fuel and the station has taken on capacity obligations from 2017 through to 2021.

Construction is well under way at SSE's Ferrybridge Multifuel 2 (FM2) project after the Final Investment Decision was taken in June 2016. The project is being built next to the FM1 facility. The completed plant will be able to generate around 70MW of electricity, enough to power around 170,000 homes, and is expected to be in operation from 2019. SSE currently owns 100 per cent. of Ferrybridge MFE 2 Limited but has a contractual agreement,

subject to various contingent matters, to dispose of 50 per cent. of the share capital of the company to the joint venture partner of the initial multi fuel facility. This transaction is anticipated to take place during 2017 and 2018.

Gas Production

SSE's gas production portfolio comprises stakes in mature assets in the Easington and Bacton Catchment Areas in the Southern North Sea, as well as equity in new fields in the Greater Laggan Area, which are located to the West of Shetland. Total output in 2016/17 was 618 million therms (10.2 mmboe) of gas and 1.0 mmboe of liquids, compared with 403 million therms of gas (6.6 mmboe) and 0.1 mmboe of liquids in 2015/16. This significant rise in production was primarily due to the increase in output from the newly commissioned fields in the Greater Laggan Area, partially offset by the natural decline in output from the more mature fields in Easington and Bacton Areas.

In the Greater Laggan Area, gas production started in 2016 from the Laggan and Tormore fields with production rates peaking at up to 90,000 boe a day. The nearby Edradour and Glenlivet fields are both expected to start production by the end of 2017 helping to maintain production at peak rates during 2018.

Following a technical review of SSE's gas asset portfolio conducted by SSE's independent reserves auditors, the economically recoverable, Proven plus Probable (2P) Reserves in SSE's gas production portfolio of assets were assessed as being 2.5bn therms at 31 March 2017 compared to 3.6bn therms at 31 March 2016. As well as the production in the year, this movement in estimated reserves reflects a significant reduction in the estimated 2P reserves in the Greater Laggan Area assets that is only partially offset by an increase in those of SSE's mature asset base in the Southern North Sea. The reduction in the estimated Greater Laggan Area 2P reserves resulted in an exceptional impairment of £180.5 million at the year end. While this is disappointing, movement in the technical assessment of 2P reserves is a well-known occurrence in the gas production business. Therefore, further reassessments of these relatively new fields are expected to take place in the future. In relation to the Greater Laggan Area fields, the movement in the reserves position reflects current best, but early stage, understanding of the fields, where it now appears there is greater compartmentalisation of gas than expected, which it is assessed, will require some further capital investment to extract. Consequently, this also means that the level of Contingent Reserves (2C) has increased compared to March 2016.

Despite reduced estimated 2P reserves, these gas production assets are still an important long-term asset and are expected to make an important contribution to EBITDA with SSE's average annual volumes of gas and liquids produced expected to average around 500million therms (8.1mmboe) of gas per year in the three years to March 2020. Thereafter, on current reserve estimates, production is expected to decline to minimal levels by 2025.

Gas Storage

Both of SSE's storage sites have continued to operate 2016/2017, following the return to service of the Hornsea (Atwick) site earlier in this financial year:

- Hornsea (Atwick) met 100 per cent. of customer nominations with the site 86 per cent. available through the second half of the year, except in instances of planned maintenance; and
- Aldbrough met 100 per cent. of customer nominations and was 98 per cent. available, except in instances of planned maintenance, throughout the year.

Alongside the underpinning requirements to maintain high standards of safety and asset management, SSE continues to respond to the difficult trading conditions with its overall aim to provide valuable flexibility and hedging services to its customers and the wider UK gas market, while managing its profitability and being as well-positioned as possible to take advantage of future market developments.

Borrowing and facilities

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. SSE's total debt and hybrid capital was £9.8 billion as at 31 July 2017. Its average debt maturity as at 31 July 2017 was 8.4 years, compared with 8.8 years at 31 March 2017.

SSE's debt structure remains strong, adjusted net debt and hybrid capital¹⁰ was £8.9 billion as at 31 July 2017 in the form of issued bonds, European Investment Bank debt and other loans. Fixed rate debt accounted for 100 per cent. of SSE's total debt as at 31 July 2017, and is expected to fall to around 85 per cent. by 31 March 2018. The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt and hybrid capital includes cash and cash equivalents totalling £985.1 million. The facilities, external debt and internal loan stocks for the SSE Group as at 31 July 2017 (with sterling equivalents (where applicable) as at that date) were as follows:

SSE	<ul style="list-style-type: none"> • U.S.\$680 million (£433.8 million) U.S. private placement due between 2019 and 2024 • £501.1 million U.S. private placement due between 2023 and 2027 • £500 million 5.0 per cent. bonds due 2018 • ¥15 billion (£126.6 million) 3.52 per cent. fixed rate notes due 2018 • £300 million 4.25 per cent. bonds due 2021 • £300 million 5.875 per cent. bonds due 2022 • £500 million 8.375 per cent. bonds due 2028 • £350 million 6.25 per cent. bonds due 2038 • €600 million 2.00 per cent. bonds due 2020 (£537.2 million of principal outstanding) • €500 million 2.375 per cent. bonds due 2022 (£415.0 million of principal outstanding) • £1.3 billion revolving credit facility maturing 2022 (undrawn) • £1.5 billion Euro Commercial Paper programme (undrawn) • £200 million revolving credit facility maturing 2021 (undrawn) • £200 million bank term loan facility maturing 2018 (undrawn) • €700 million 1.75 per cent. bonds due 2023 (£514.6 million of principal outstanding) • £100 million European Investment Bank loan due 2020 • £300 million European Investment Bank loan due 2021 • U.S.\$150 million (£106.0 million) bank loan due 2018
SSE Generation Limited	<ul style="list-style-type: none"> • £1,550 million intercompany loan stock due to SSE
SHEPD	<ul style="list-style-type: none"> • £134.4 million 1.429 per cent. index linked bonds due 2056 • £300 million intercompany loan stock due to SSE
SEPD	<ul style="list-style-type: none"> • £350 million 5.5 per cent. bonds due 2032 • £325 million 4.625 per cent. bonds due 2037 • £122.4 million 4.454 per cent. index linked loan maturing 2044 • £400 million intercompany loan stock due to SSE
SHE Transmission plc	<ul style="list-style-type: none"> • £1,063.1 million intercompany loan stock due to SSE

¹⁰ For more information on the relevance of adjusted net debt and hybrid capital (which is not an IFRS measure of performance) and the way in which it is calculated, see the financial statements which are incorporated by reference in this Prospectus.

	<ul style="list-style-type: none"> • £150 million European Investment Bank loan due 2021 • £150 million European Investment Bank loan due 2022 • £50 million European Investment Bank loan due 2023 • £300 million European Investment Bank Loan due 2026
SSE Services plc	<ul style="list-style-type: none"> • £30 million intercompany loan stock due to SSE
SSE Home Services plc	<ul style="list-style-type: none"> • £87.6 million intercompany loan due to SSE
SSE Hornsea Limited	<ul style="list-style-type: none"> • £240 million intercompany loan stock due to SSE
SSE E&P UK Limited	<ul style="list-style-type: none"> • £90 million intercompany loan stock due to SSE
Keadby Generation Limited	<ul style="list-style-type: none"> • £120 million intercompany loan stock due to SSE
SSE Generation Ireland Limited	<ul style="list-style-type: none"> • €74.8 million (£67.0 million) intercompany loan stock due to SSE

Hybrid Capital

Hybrid Equity

On 10 March 2015, SSE issued £750 million and €600 million hybrid capital bonds (the “**Sterling 2015 Hybrid Bonds**” and the “**Euro 2015 Hybrid Bonds**” respectively) and on 18 September 2012 issued €750 million and \$700 million bonds (hybrid capital) (“**2012 Hybrid Bonds**”). The hybrid capital bonds have no fixed redemption date but SSE may, at its sole discretion, redeem all (but not part) of these bonds at their principal amount on: (i) 1 October 2017 or every five years thereafter for the 2012 Hybrid Bonds; (ii) 10 September 2020 or every five years thereafter for the Sterling 2015 Hybrid Bonds; and (iii) 1 April 2021 or every five years thereafter for the Euro 2015 Hybrid Bonds. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to compliance with certain conditions, including no dividend having been declared on SSE’s ordinary shares (in 2016/17, SSE’s dividend per share was 91.3 pence, compared with 89.4 pence in 2015/16 and SSE is committed to delivering dividend growth and expects to continue targeting dividend increases of at least RPI inflation).

Hybrid Debt

On 16 March 2017, SSE issued \$900 million and £300 million hybrid capital bonds (“2017 Hybrid Bonds”). The 2017 Hybrid Bonds mature on 16 September 2077 but SSE may, at its sole discretion, redeem all (but not part) of these bonds at their principal amount on 22 September 2022 or any interest payment date thereafter. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to compliance with certain conditions, including no dividend having been declared on SSE’s ordinary shares. The intent is to use the proceeds to replace the 2012 Hybrid Bonds, which have an issuer first call date on 1 October 2017. Due to the 2017 Hybrid Bonds having a fixed redemption date, they have been accounted for as a Debt item. This is in contrast to the previous hybrid issues which have no fixed redemption date and are accounted for as Equity.

The total hybrid capital for the SSE Group as at 31 July 2017 (with sterling equivalents (where applicable) as at that date) totalled £3.28 billion and was as follows:

SSE	<ul style="list-style-type: none"> • €750 million (£602.3 million) Hybrid Equity Capital Bond – perpetual with first call date 1 October 2017 • U.S.\$700 million (£431.1 million) Hybrid Equity Capital Bond – perpetual with first call date 1 October 2017 • £750 million Hybrid Equity Capital Bond – perpetual with first call date 10 September 2020 • €600 million (£440.5 million) Hybrid Equity Capital Bond – perpetual with first call date 1 April 2021
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- €900 million (£755.3 million Hybrid Debt Capital Bond – maturing 16 September 2077 with first call date 16 September 2022)
- £300 million Hybrid Debt Capital Bond – maturing 16 September 2077 with first call date 16 September 2022

Investment priorities

SSE's investment priorities are to deliver additional assets in renewable energy, electricity networks and gas storage which contribute to secure and lower-carbon supplies of energy, to meet other key milestones in its investment programme in generation, electricity networks and gas storage and to pursue the additional options that it has identified for investment.

Investment and capital expenditure

Efficient and disciplined investment in building a balanced range of economically-regulated and market-based energy assets that it also generally owns and operates is central to SSE's strategic framework. This means that investment should be in line with SSE's commitment to strong financial management and consistent with the maintenance of a balanced range of assets within SSE's businesses.

SSE invests in a balanced range of businesses and invests only in assets for which returns are expected to be clearly greater than the cost of capital. All projects complement SSE's existing portfolio of assets and are governed and executed in an efficient manner and in line with SSE's commitment to strong financial management.

During 2016/17, SSE's investment and capital expenditure totalled £1,726.2 million. This included:

- A major investment programme in electricity networks: the switching on of the first section of an overhead link between Knocknagael and Kintore represented a key milestone in the Caithness-Moray electricity transmission link project. The project is the largest capital project ever undertaken by SSE and is on schedule for completion in 2018. This investment, alongside continued upgrading of the electricity distribution network to meet the changing needs of customers, will further increase the total Regulated Asset Value (RAV) of SSE's networks businesses.
- Further investment in renewable energy in GB and Ireland: progress was made to increase SSE's renewable energy portfolio in GB with projects to be delivered through the Renewables Obligation (RO), which also applies in Northern Ireland, Contracts for Difference (CfD) and Renewable Energy Feed in Tariff 2 in Ireland. Progress has been made at projects including the Clyde Extension (173MW); Stronelaig (225MW); the Beatrice offshore wind farm (SSE share 235MW); and Galway Wind Park (SSE share 120MW), which is the largest wind farm in Ireland. These projects, along with further onshore wind projects in construction or pre-construction and the recently delivered Tievenameenta (34MW) wind farm, will add just over 1GW to SSE's renewable energy portfolio, taking SSE's total renewable energy capacity 4.3GW including pumped storage.

In addition, SSE is fulfilling a regulatory obligation to install smart meters for its Energy Supply customers. As at 31 March 2017, SSE had installed over 500,000 smart meters in customers' homes. Post-installation, SSE's meters will transfer to a contracted meter asset provider. SSE's investment and capital expenditure therefore excludes the capital cost of installation and meter assets. Subject to the delivery timetable of the critical central infrastructure, and other GB-wide technical constraints affecting the progress of smart metering, SSE intends to ramp up its rollout significantly over 2017/18.

SSE is maintaining investment momentum, with capital and investment expenditure of around £1.7 billion planned for 2017/18, similar levels currently expected for 2018/19 and around £6 billion in total over the four year-period to 2020. Around £5 billion of that is already committed, predominantly in building, owning and operating economically-regulated electricity networks and government-mandated renewable energy projects. The revenue derived from those assets is generally index-linked.

SSE has made almost £11 billion of capital expenditure since 2010 (72 per cent. for Electricity Networks and Renewables, 14 per cent. for Wholesale (excluding renewables) and 14 per cent. for Retail and Other).

Returning value to shareholders

SSE intends to use around £500 million of the proceeds from the 16.7 per cent. equity stake divestment in SGN to return value to shareholders by way of an on-market share buy-back. The buy-back started in November 2016 and, as at 17 May 2017, SSE had directed £196 million towards the buy-back, repurchasing around 13.4m shares. SSE still expects the process to be completed by the end of December 2017.

Environment and Climate Change

At the heart of SSE's strategy is a commitment to contributing substantively to the transition to a low carbon electricity system.

In terms of electricity generation this has meant, and continues to mean, undertaking a strategic shift away from carbon intensive fossil fuel generation and towards electricity generation from renewable sources. SSE has a long-standing commitment to reduce by 50 per cent. the carbon intensity of the electricity it produces, by 2020 (using 2006 as its baseline). This target was first achieved in 2016/17, and SSE is continuing to invest in renewable sources of energy.

In terms of electricity transmission and distribution it has meant, and continues to mean, enabling the connection of renewable sources of electricity to the network and optimising the networks as they adapt to a lower carbon future. In 2016/17, SSE's networks businesses connected over 500MW of capacity for renewable energy to the electricity grid, and they are continuing to invest in accommodating more renewable sources of energy in the future.

Overall, the company remains committed to developing and constructing new energy assets that are sustainable and progressive and contribute to the achievement of climate change- related targets in the UK and Ireland and to being transparent in its carbon-related disclosures and objectives.

To bring about this strategic change the SSE Group has:

- Invested significantly in renewable energy: SSE has invested £3.2billion in renewables since 2010 and has the largest renewable energy capacity in the UK and Ireland at over 3,300MW.
- Moved from a portfolio weighted towards coal and gas, to gas and renewables: In 2016/17 coal contributed 3.4 per cent. of SSE's generation output compared to 22 per cent. the previous year.
- Enabled more renewable generation to connect to the electricity network: SSE has invested close to £1.9billion in the GB electricity network since 2013.

SSE's continues to support this strategy and aims to:

- Progress its capital and investment expenditure: this is expected to total around £6billion across the next four years, mainly in electricity networks and renewable energy.
- Increase its amount of renewable capacity: SSE has a target to increase renewable capacity to 4.3GW by 2020, including pumped storage.
- Deliver enhanced customer experience of retail energy markets: This will be achieved through the installation of smart meters and the provision of digital services.

SSE's Chief Executive has overall lead responsibility for sustainability, including at Board-level. The Executive Committee monitors the operational and financial performance of sustainability related activities across the organisation and reviews progress quarterly. It is supported by the Governance, Culture and Controls Committee which governs sustainability management.

SSE's performance in managing climate change mitigation led CDP to award SSE an A- rating in 2016 and include it in the global Climate Disclosure Leadership Index.

Regulatory Environment

Electricity Generation

The electricity industry in Great Britain is regulated by the Authority. The principal objective of the Authority, as set out under the Electricity Act 1989, is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems; wherever appropriate by promoting effective competition. In respect of the wholesale electricity market, OFGEM's primary objective is to help markets operate more effectively by removing barriers, for example by ensuring there is greater transparency of information to all parties, including customers. In addition, when necessary and appropriate to do so, OFGEM use their powers to monitor and address any anti-competitive behaviour or practices which may affect the market. OFGEM provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The Authority's duties include ensuring that licence holders are able to finance their statutory and licence obligations, and that they operate their business with regard to the effect on the environment.

SSE's generation businesses generate electricity under licences issued under the Electricity Act 1989. The electricity generation licences oblige parties to accede to and/or comply with the sets of rules or "codes" ("**Codes**") that govern the operation of the electricity generation market. The main Codes are the Balancing and Settlement Code, the Connection and Use of System Code, the Distribution Connection and Use of System Agreement, the Grid Code and the Distribution Code. The current structure of the competitive Great Britain market was put in place in 2005 when the England and Wales market rules were applied to Scotland, thereby creating the British Electricity Trading and Transmission Arrangements ("**BETTA**"). Significant modifications to the BETTA market operating rules require approval by the Authority.

While SSE's generation businesses operate under such licences, electricity generation in the Great Britain is a competitive activity and is not subject to price controls.

Following the passing of the Energy Act, a number of reforms to the Great Britain electricity market have now been implemented, including the introduction of new long term contracts (Contracts for Difference) to support low carbon generation as well as a capacity mechanism to ensure generation capacity adequacy. In December 2014, SSE secured agreements to provide a total of 4,409MW of de-rated electricity generation capacity from October 2018 to September 2019 at a price of £19.40/kW as a result of the first Capacity Market Auction process. In the second auction (for capacity delivery from October 2019 to September 2020), SSE secured agreements to provide a total of 3,150MW of de-rated electricity generation capacity at a price of £18/kW. In the auction held in December 2016 (for capacity delivery from October 2020 to September 2021), SSE secured agreements to provide a total of 3,239MW of de-rated electricity generation capacity at a price of £22.50/kW.

In December 2013, National Grid was permitted by OFGEM to procure additional balancing reserves through SBR (Supplemental Balancing Reserve) contracts. SBR was targeted at generating plant that would otherwise be unavailable, and was designed to provide short-term additional reserves to support National Grid in balancing the transmission system if there is insufficient generation capacity available in the market to meet demand. Following the Government's announcement in March 2016 that it would be bringing forward the Capacity Market for delivery in 2017/18, OFGEM stated that SBR services would not be needed for 2017/18. SSE has secured three SBR contracts for Peterhead, Fiddler's Ferry and Keadby for winter 2016/2017. Separately, in March 2016, SSE also secured an additional ancillary services contract with National Grid for Fiddler's Ferry, to provide Black Start capability.

The environmental impact of the operation of large generating stations in Great Britain is regulated by the Environment Agency in England and Wales ("**EA**"), Natural Resources Wales in Wales ("**NRW**") and the Scottish Environmental Protection Agency in Scotland ("**SEPA**"). EA and SEPA were both established under the Environment Act 1995, whereas NRW only became operational from 1 April 2013 when it took over the

management of natural resources of Wales. The operation of SSE's generating plant in England and Wales and Scotland is carried out under permits issued by the relevant regulator. These permits impose limits on all activities that could impact the environment, including emissions to air and water and the production and disposal of wastes. Formal statutory notices may be issued by EA, NRW and SEPA in relation to any environmental incidents. The EA also issues permits under the EU emissions trading scheme for carbon dioxide emissions and ensures industry compliance with such scheme. SSE's carbon emissions data is externally verified by a UK accreditation service.

Electricity and Gas Supply

SSE's electricity and gas supply businesses operate under licences issued under the Electricity Act 1989 and the Gas Act 1986. The provisions of such licences are regulated by the Authority. The principal objective and duties of the Authority are described above (see "*—Regulatory Environment—Electricity Generation*"). While SSE's supply businesses operate under licence, the supply of electricity and gas in Great Britain is a competitive activity and is not subject to price controls.

OFGEM is now looking at introducing a new approach to regulation that will be reliant on principles, rather than prescriptive rules. This piece of work, referred to as the "Future of Retail Regulation" project, will examine the current rulebook with a view to introducing additional overarching principles whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation.

On 27 March 2014, OFGEM published its state of the market assessment report setting out its findings in relation to competition in the energy market. The report concluded that despite the reforms introduced by OFGEM, there continues to be significant consumer and public concern regarding the energy market. The report specifically highlights concerns around: weak customer response; evidence of incumbency advantages; evidence of possible tactic coordination; vertical integrations and barriers to entry; and increased supplier profits. As a result, OFGEM made a reference to the CMA to investigate the supply and acquisition of energy in Great Britain.

On 24 July 2014, the CMA published its statement of issues setting out the scope of its investigation and inviting submissions on the issues identified. SSE responded formally to that statement of issues in August 2014, pointing out that the Great Britain energy market is generally well-functioning and benefiting customers, while highlighting a number of areas where there may be potential for reforms that produce additional benefits for customers. In February 2015, the CMA published its working papers and annotated Issues Statement which provided an indication of the CMA's emerging thinking in light of the evidence that has been submitted by the parties. On 7 July 2015 the CMA published its Provisional Findings and its initial verdict on the state of competition in the Great Britain energy market. It consulted on possible remedies to address the issues identified. SSE submitted a comprehensive written response to the CMA in August 2015. The Provisional Decision on Remedies (PDR) was published in March 2016 setting out proposals for a substantive package for customers which will require significant resource and investment to implement. SSE submitted a comprehensive response which fed into CMA's deliberations leading up to the Final Report which was published on 24 June 2016.

The Final Report recommended a package of remedies broadly on the same lines as set out at the PDR stage aside from some detailed fine tuning. This was followed by a CMA-led consultation process leading to the publication of the CMA's Final Orders in December 2016.

The Final Report reinforced the CMA's earlier verdict on the original Theories of Harm, establishing that:

- wholesale markets are liquid and transparent and do not act as a barrier to entry or lead to other market inefficiencies;
- vertical integration does not give companies an unfair advantage;
- there is no unilateral market power in generation;
- there is no "over-compensation" of generators; and

- there is no tacit coordination between domestic energy suppliers.

The Final Report and the remedies therefore mainly seek to address a perceived problem of weak customer response and the CMA's conclusion that the customer detriment due to shortcomings in competition in retail energy is a headline figure of £1.4 billion/year. Technically, this is a measure of the gains from switching and SSE argued strongly in its submissions that the CMA is wrong to consider this a measure of detriment.

Key remedies proposed in the Final Report representing risks to SSE were:

- The **PPM price cap**, which will be transitional and in force from 2017-2020. It will apply to all PPM customers with either 'dumb' meters or SMETS1. The CMA has accepted that the price cap should not apply to customers with SMETS 2 smart meters.
- The **Customer Database** is a priority for the CMA and OFGEM. By 2018, it is proposed that suppliers will be able to access the database of Disengaged Domestic Customers who have not opted out.
- On **locational pricing of transmission losses**, the CMA is obliging the Transmission Company (National Grid) to use its best endeavours to ensure that a modification proposal reflecting the CMA's remedy is approved and implemented no later than 1 April 2018.
- On **financial reporting**, OFGEM has consulted on changes to the requirements for the Consolidated Segmental Statements, to include provision of separate balance sheets for generation and supply as well as disaggregated wholesale energy costs.
- The CMA has introduced SLC 32A (which is, as stated above, a new licence condition giving OFGEM the power, if necessary, to direct suppliers to test consumer engagement measures.
- On **restricted hours meters**, suppliers must ensure that new and existing customers with restricted-hours meters (except Economy 7) can choose an unrestricted (single-rate) tariff without requiring a meter exchange. SSE already does this for a small number of existing customers (via manual work-arounds) but making this available for all customers in this group will require process and system changes.
- The other remedies, including those for microbusiness, softening of the RMR rules, and the recommendations to DECC and OFGEM on improved governance are also in the package but represent lower levels of risk.

The main overarching risk to be managed in the final stage of this process relates to proper management of the compliance risks associated with implementing all of the CMA's remedies, particularly against the backdrop of the large amount of concurrent regulatory change that suppliers are currently facing, which places resource challenges on IT system implementation.

In the 2017 UK general election, several political parties, including the Conservative Party, proposed that further intervention was required in the market. As noted in the Regulatory Risks section above, the Government included reference in this year's Queen's Speech, which noted that it intended to bring forward measures to ensure fairer markets for consumers and to reduce energy bills. On 21 June 2017, the Secretary of State wrote to OFGEM to request "advice" as to what the regulator might do to address the issues in the market. On 3 July 2017, OFGEM responded to note that it would look at options including the potential extension of the PPM safeguard cap to a wider group of vulnerable customers. However, at present it is not clear what any final package of intervention on price might look like in practice.

Electricity Transmission

In the north of Scotland, the licensed transmission network owner is SHE Transmission plc ("**SHE Transmission**").

SHE Transmission has a duty under the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economical system of electricity transmission that facilitates competition in the supply and generation of electricity.

SHE Transmission is regulated by the Authority. Under the licence, where it is reasonable to do so, SHE Transmission is under a statutory duty to offer terms to connect any customer that requests a connection within its area and to maintain that connection. SHE Transmission's licence may be terminated on 25 years' notice given by the Secretary of State for Energy and Climate Change (or any successor) (the "**Secretary of State**") and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

SHE Transmission is subject to a control on the prices it can charge and the quality of supply it must provide. Its activities are regulated under the transmission licence pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity transmission price control commenced on 1 April 2013. This covers the eight year period until 31 March 2021. The price control is called RIIO-T1. A consultation on the need to initiate a mid-period review of RIIO-T1 was conducted from November 2015 to January 2016. OFGEM issued its final decision in May 2016 that a mid-period review of RIIO-T1 for SHE Transmission was not required.

Under the RIIO-T1 price control model, OFGEM can approve large capital investments proposed by SHE Transmission. During 2014, OFGEM approved all three projects submitted by SHE Transmission: Caithness Moray, Kintyre Hunterston and Beaulieu Mossford overhead line. SHE Transmission completed in 2015 both the legacy Beaulieu Blackhillock Kintyre (cost of £94 million), and Beaulieu Mossford (cost of £68 million) overhead lines, and in 2016 completed the Kintyre Hunterston (cost of £210 million) overhead line, all three projects were completed on time and to budget. Caithness Moray is on course to be commissioned by the end of 2018 (estimated cost of £1.1 billion).

The Beaulieu Denny 400kV reinforcement project was completed (cost of £665 million) and energised in November 2015 (and was completed in 2016). In November 2016, OFGEM consulted on SHE Transmission's request for additional construction funding for efficient overspend outside its control. On 30 January 2017, OFGEM confirmed its decision is as per its consultation such that the full £58.8 million (2009/10 prices) of additional costs claimed are efficient. OFGEM will allow 47.3 per cent. (£27.8 million) to be included as an Asset Value Adjustment Event, with the additional revenue stream starting in 2017/18. The remaining £31 million will be recovered at the end of the TIRG (transmission investment for renewable generation) incentive period (2021/22).

Following the UK General Election on 8 June 2017, the Conservative Party has formed a minority government, working under an agreement with the Democratic Unionist Party. The absence of a majority means that the Government's ability to deliver its legislative agenda is uncertain. Prior to the election, the then Government had committed to introducing legislation giving OFGEM the powers to extend competition in transmission services. OFGEM has recently announced that this will not be taken forward in its current form due to the lack of available Parliamentary time. OFGEM remains committed to introducing greater competition, but the means by which this will happen, and the impact on the SSE Group, is now uncertain.

Electricity distribution

In the north of Scotland, SHEPD is the licensed distribution network owner and in southern and central England SEPD is the licensed distribution network owner. These are collectively known as Scottish and Southern Energy Power Distribution ("**SSEPD**").

The electricity industry is subject to extensive legal and regulatory obligations and controls with which both SHEPD and SEPD must comply. SHEPD and SEPD are regulated by the Authority. The principal objective and duties of the Authority are described above. The general duties of an electricity distribution licence holder under the Electricity Act 1989 are to develop and maintain an efficient, co-ordinated and economical system of electricity distribution, and to facilitate competition in the supply and generation of electricity. Under the licence, where it is reasonable to do so, each of SHEPD and SEPD is under a statutory duty to connect any customer requiring electricity within its area and to maintain that connection. In each case, its licence may be terminated on 25 years' notice given by the Secretary of State and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

Each of SHEPD and SEPD is subject to control on the prices it can charge and the quality of supply it must provide. Their operations are regulated under their distribution licences pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. OFGEM published its final determinations on the current RIIO-ED1 price control period on 28 November 2014, and SHEPD and SEPD confirmed their intention to accept this determination on 19 December 2014. The final determinations set the base revenue for SHEPD and SEPD for the 8 years from 1 April 2015. A mid-period review of RIIO-ED1 is expected to be conducted during 2018. OFGEM is expected to consult on the scope of this review in late-2017.

In March 2015 BGT lodged an appeal with the CMA on the RIIO-ED1 final determination that could have affected the five distribution network operator groups, including SSEPD (at the same time, NPg also lodged an appeal seeking to enhance their own price control settlement). The CMA published its Final Determination on 29 September 2015. Of the six original BGT grounds for appeal only one was partially upheld. The decision did not materially reduce the forecast RIIO-ED1 return, nor as a consequence did it reduce the return below the target set by SSEPD and on which the price control settlements were accepted. Whilst the impact of the appeal on SSEPD was largely benign, the raising of the appeal has influenced the regulatory landscape and the way that future price controls will be set.

On 22 June 2016, the Authority issued a notice under paragraph 2 of schedule 6A of the Competition Act 1998 outlining proposals to accept commitments made by SSE in relation to its network connections business. The Authority's proposals went out for consultation, which closed on 3 August 2016. The Authority considered representations made and consulted the CMA and European Commission. Acceptance of these commitments, confirmed by OFGEM's final decision notice of 7 November 2016, closes the 22 month investigation into allegations that SSE's processes and practices in the provision of connection information and quotations impeded competition in the SEPD licensed area. The notice does not make any finding on alleged infringement of competition law and OFGEM has closed its investigation. The commitments offered are legally binding and SSE has committed to put in place new processes and procedures in relation to its connections activities. OFGEM considers that the commitments made fully address the competition concerns identified.

Gas distribution

Scotland Gas Networks plc and Southern Gas Networks plc are regulated by the Authority. The principal objective of the Authority, as set out under the Gas Act 1989, as amended by the Utilities Act 2000 and the Energy Acts 2004, 2008 and 2010 (the "**Gas Act**"), is to protect the interests of existing and future consumers in relation to gas conveyed through pipes; wherever appropriate by promoting effective competition. OFGEM provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The duties of the Authority are described above.

The general duties of a gas transportation licence holder under the Gas Act are to develop and maintain an efficient and economical pipeline system for the conveyance of gas; so far as it is economical to do so, comply with any reasonable request for a connection to the system; facilitate competition in the supply of gas; and avoid any undue preference or undue discrimination in the provision of connections and in the conveyance of gas. The licence of each network may be terminated on 10 years' notice given by the Secretary of State and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

Each network is subject to control on the prices it can charge and the quality of service it must provide. The operations of each network are regulated under its gas transportation licences pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current gas distribution price control commenced on 1 April 2013 and covers the eight year period until 31 March 2021. A consultation on the need to initiate a mid-period review of RIIO-GD1 was conducted from November 2015 to January 2016. OFGEM issued its final decision in May 2016 and confirmed its initial view that a mid-period review of RIIO-GD1 was not required.

TAXATION

The comments below, which apply only to persons who are beneficial owners of the Notes, concern only certain withholding obligations and reporting requirements with respect to the Notes and are of a general nature based on current United Kingdom tax law as applied in England and Wales, and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs), and are not intended to be exhaustive. The comments below do not deal with any other transaction implications of acquiring, holding or disposing of the Notes. They assume that there will be no substitution of an entity not resident in the UK for tax purposes in place of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution is permitted by the terms and conditions of the Notes). References in this part to “interest” shall mean amounts that are treated as interest for the purposes of United Kingdom taxation. Any Noteholders or Couponholders who are in doubt as to their own tax position should consult their professional advisers.

1 Interest on the Notes

The Notes issued will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 provided they are and continue to be listed on a recognised stock exchange, within the meaning of section 1005 Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Notes will be treated as listed on the London Stock Exchange if they are included in the Official List by the UK Listing Authority and are admitted to trading on the London Stock Exchange.

Whilst the Notes are and continue to be quoted Eurobonds, payments of interest by the relevant Issuer on the Notes may be made without withholding or deduction for or on account of UK income tax.

In all other cases, interest will generally be paid by the relevant Issuer under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs or exceptions or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. However, there should be no withholding or deduction for or on account of UK income tax if the relevant interest is paid on Notes with a maturity date of less than one year from the date of issue and which are not issued under arrangements the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more. If any amount must be withheld by the relevant Issuer on account of UK tax from payments of interest on the Notes then such Issuer will, subject to the provisions of Condition 9 of the Terms and Conditions of the Notes, pay such additional amounts as will result in the Noteholders or Couponholders receiving an amount equal to that which they would have received had no such withholding been required.

Interest on the Notes constitutes UK source income for UK tax purposes and, as such, may be subject to UK tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a corporate Noteholder, carries on a trade through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable, in which case tax may be levied on the UK branch or agency, or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

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

2 Other Rules Relating to United Kingdom Withholding Tax

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element (for UK tax purposes) on any such Notes will not generally be subject to any withholding or deduction for or on account of United Kingdom income tax pursuant to the provisions mentioned above.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to withholding or deduction for or on account of United Kingdom income tax.

3 Proposed Financial Transaction Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**European 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 does not wish to be a participating Member State. The European Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the European 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 Notes where at least one party is a financial institution, and at least one party is established or deemed to be 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 Notes are advised to seek their own professional advice in relation to the FTT.

4 FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the U.K.) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 25 August 2017 (as amended or supplemented as at the Issue Date in respect of the relevant Notes, the “**Dealer Agreement**”) between the Issuers, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

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

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

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Bearer Notes having a maturity of more than one year are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury Regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury Regulations thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, by the Issuing and Paying Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States. Distribution of this Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States is prohibited.

Prohibition of Sales to EEA Retail Investors

From 1 January 2018, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) 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 Directive 2014/65/EU (as amended, "**MiFID II**"); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

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

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

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

These selling restrictions may be modified by the agreement of the relevant Issuer (or, if applicable, all the Issuers) and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Prospectus.

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

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus, any other offering material or any Final Terms, in all cases at its own expense, and neither the relevant Issuer nor any other Dealer shall have responsibility therefor.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

**Final Terms dated [●]
[SSE plc]/
[Scottish Hydro Electric Power Distribution plc]/
[Scottish Hydro Electric Transmission plc]/
[Southern Electric Power Distribution plc]
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €10,000,000,000
Euro Medium Term Note Programme**

PART A — CONTRACTUAL TERMS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended, from 1 January 2018, to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (“**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (“**IMD**”), 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 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 25 August 2017 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated 25 August 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated 25 August 2017 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus(es) to it dated [●]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●].

1	Issuer:	[SSE plc]/ [Scottish Hydro Electric Power Distribution plc]/ [Scottish Hydro Electric Transmission plc]/ [Southern Electric Power Distribution plc]
2	(i) [Series Number:]	[●]
	(ii) [Tranche Number:]	[●]
3	Specified Currency or Currencies:	[●]
4	Aggregate Nominal Amount of Notes:	[●]
	(i) [Series:]	[●]
	(ii) [Tranche:]	[●]
	(iii) [Date on which the Notes become fungible:]	Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [●] on [●]/the Issue Date/ exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [29] below [which is expected to occur on or about [●]].]
5	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]]
6	(i) Specified Denominations:	[●] [and integral multiples of [●] in excess thereof up to and including [●]. No notes in definitive form will be issued with a denomination above [●]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[[●]/Issue Date/Not Applicable]
8	Maturity Date:	[●]
9	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [RPI Linked] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [RPI Linked Redemption]
11	Change of Interest or Redemption/Payment Basis:	[●]/Not Applicable
12	Put/Call Options:	[General Put] [Restructuring Event Put] [Change of Control Put] [SSE Restructuring Event Put] [Issuer Call] [Make-Whole Call] [Issuer Maturity Par Call] [Clean-Up Call]
13	[[Date [Board] approval for issuance of Notes obtained:]	[●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent, per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
 - (ii) Interest Payment Date(s): [●] in each year
 - (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
 - (iv) Broken Amount(s): [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
 - (v) Day Count Fraction: [Actual/Actual][Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual (ICMA)]
 - (vi) [Determination Dates: [[●] in each year/[Not Applicable]]
- 15 Floating Rate Note Provisions: [Applicable/Not Applicable]
- (i) Interest Period(s): [●]
 - (ii) Specified Interest Payment Dates: [●]
 - (iii) First Interest Payment Date: [●]
 - (iv) Interest Period Date: [●]
 - (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
 - (vi) Business Centre(s): [●]
 - (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
 - (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [●]
 - (ix) Screen Rate Determination:
 - Reference Rate: [LIBOR/EURIBOR]
 - Interest Determination Date(s): [●]
 - Relevant Screen Page: [●]
 - (x) ISDA Determination:
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - [ISDA Definitions: 2006]
 - (xi) Linear Interpolation: [Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]

(xii) Margin (s):	[+/-][●] per cent. per annum
(xiii) Minimum Rate of Interest:	[●] per cent. per annum
(xiv) Maximum Rate of Interest:	[●] per cent. per annum
(xv) Day Count Fraction:	[Actual/Actual][Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
16 Zero Coupon Note Provisions:	[Applicable/Not Applicable]
(i) Amortisation Yield:	[●] per cent. per annum
(ii) Day Count Fraction in relation to Early Redemption Amount:	[Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
17 RPI Linked Note Provisions:	[Applicable/Not Applicable]
(i) Rate of Interest:	[●]/[Not Applicable]
(ii) Base Index Figure:	[●]/[Not Applicable]
(iii) Reference Gilt:	[●]/[Not Applicable]
(iv) Index Figure applicable:	[3 months lag/8 months lag]
(v) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●]/[Not Applicable]
(vi) Interest Determination Date(s):	[●]
(vii) Interest Period(s):	[●]
(viii) Specified Interest Payment Dates:	[●]
(ix) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(x) Business Centre (s):	[●]
(xi) Minimum Rate of Interest:	[●] per cent. per annum
(xii) Maximum Rate of Interest:	[●] per cent. per annum
(xiii) Day Count Fraction:	[Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]

PROVISIONS RELATING TO REDEMPTION

- 18 Call Option: [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount(s): [●] per Calculation Amount
 - (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount: [●] per Calculation Amount
 - (iv) Notice period: [●]
- 19 Make-Whole Redemption: [Applicable/Not Applicable]
- (i) Make-Whole Redemption Date(s): [●]
 - (ii) Make-Whole Amount(s):
 - (a) Specified Time: [●]
 - (b) Redemption Margin: [●] per cent.
 - (iii) If redeemable in part: [●]
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount: [●] per Calculation Amount
 - (iv) Notice period: [●]
- 20 Issuer Maturity Par Call: [Applicable/Not Applicable]
- Notice period: [●]
- 21 Clean-Up Call Option: [Applicable/Not Applicable]
- (i) Clean-Up Redemption Amount: [●] per Note of [●] Specified Denomination
- 22 General Put Option: [Applicable/Not Applicable]
- (i) Optional Redemption Date(s): [●]
 - (ii) Optional Redemption Amount(s): [●] per Calculation Amount
 - (iii) Notice period: [●]
- 23 Restructuring Event Put Option: [Applicable/Not Applicable]
- (i) Restructuring Event Redemption Amount: [●]
 - (ii) Put Period: [●]
 - (iii) Put Date: [●]
- 24 Change of Control Put Option: [Applicable/Not Applicable]
- (i) Change of Control Redemption Amount: [●]
 - (ii) Put Period: [●]
 - (iii) Put Date: [●]
- 25 SSE Restructuring Event Put Option: [Applicable/Not Applicable]
- (i) SSE Restructuring Event Redemption Amount: [●]
 - (ii) Put Period: [●]

- (iii) Put Date: [●]
- 26 Final Redemption Amount of each Note: [[●] per Calculation Amount]
 [In cases where the Final Redemption Amount is RPI Linked:
- (i) Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent): [●]/[Not Applicable]
- (ii) Determination Date(s): [●]
- (iii) Payment Date: [●]
- (iv) Minimum Final Redemption Amount: [●] per Calculation Amount
- (v) Maximum Final Redemption Amount: [●] per Calculation Amount]
- 27 Early Redemption Amount:
 Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption [●]
- 28 Indexation: [Applicable/Not Applicable]
- (i) Base Index Figure: [●]
- (ii) Reference Gilt: [●]
- (iii) Index Figure applicable: [3 month lag]/[8 month lag]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 29 Form of Notes: Bearer Notes
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
 [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
 [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
 [Registered Note]
- 30 New Global Note intended to be held in a manner which would allow Eurosystem eligibility: [Not Applicable/Yes/No]
 [Note that the designation “Yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)][include this text for registered notes] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem

eligibility criteria have been met.] *[Include this text if “Yes selected, in which case the Notes must be issued in NGN form] /*

[Whilst the designation is specified as "No" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,)] [include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

- 31 Financial Centre(s): [Not Applicable/[●]]
- 32 Talons for future Coupons to be attached to Definitive Notes: [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
- 33 U.S. Selling Restrictions: [Reg. S Compliance Category 2; C RULES/ D RULES/ TEFRA not applicable]

THIRD PARTY INFORMATION

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

Signed on behalf of the Issuer:

By:
Duly authorised

PART B—OTHER INFORMATION

1 LISTING

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

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[[Standard & Poor's Credit Market Services Europe Limited:
[●]]
[Moody's Investors Service Ltd.: [●]]

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

["Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

4 [Fixed Rate Notes only — YIELD

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

5 [USE OF PROCEEDS

- Use of Proceeds: [General corporate purposes/To [finance/refinance] Eligible Green Projects
(See "Use of Proceeds" wording in Base Prospectus)]

6 [RPI Linked only — PERFORMANCE OF INDEX AND OTHER INFORMATION CONCERNING THE UNDERLYING

Information relating to the UK Retail Price Index (all items) published by the Office of National Statistics can be found at www.statistics.gov.uk.]

7 OPERATIONAL INFORMATION

- ISIN: [●]
Common Code: [●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[●]]
Delivery: Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any): [●]

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 30 August 2017. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (2) Each Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The update of the Programme was authorised by (a) resolutions of the Board of Directors of SSE passed on 15 May 2017 and 16 May 2017, (b) resolutions of the Board of Directors of SHEPD passed on 19 July 2017, (c) resolutions of the Board of Directors of SHE Transmission passed on 19 July 2017 and (d) resolutions of the Board of Directors of SEPD passed on 19 July 2017, respectively.
- (3) There has been no significant change in the financial or trading position of (a) SSE or the SSE Group since 31 March 2017 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2017.
- (4) There has been no material adverse change in the prospects of (a) SSE or the SSE Group since 31 March 2017 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2017.
- (5) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SSE, SHEPD, SHE Transmission or SEPD (as the case may be) is aware) involving (a) SSE or any of its subsidiaries or (b) SHEPD, SHE Transmission or SEPD during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of SSE and/or its subsidiaries or SHEPD, SHE Transmission or SEPD (as applicable).
- (6) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: "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".
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of any of the Paying Agents:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Memorandum and Articles of Association of each Issuer;

- (iv) the published annual report and audited consolidated financial statements of SSE for the financial years ended 31 March 2016 and 31 March 2017, respectively, and the audited financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2016 and 31 March 2017, respectively;
- (v) each Final Terms;
- (vi) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

The Prospectus and the Final Terms for Notes that are listed on the Official List and admitted to trading on the Market will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews.

- (9) KPMG Audit Plc, Chartered Accountants (regulated by the Institute of Chartered Accountants of England and Wales) rendered unqualified audit reports on (i) the consolidated financial statements of SSE for the financial years ended 31 March 2016 and 31 March 2017, respectively and (ii) the financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2016 and 31 March 2017, respectively.
- (10) The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.
- (11) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for any of the Issuers, and/or their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of any of the Issuers and/or their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of any the Issuers or the Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with any of the Issuers routinely hedge their credit exposure to that Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

REGISTERED OFFICES OF THE ISSUERS

SSE plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Scottish Hydro Electric Power Distribution plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Scottish Hydro Electric Transmission plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Southern Electric Power Distribution plc

55 Vastern Road
Reading
Berkshire RG1 8BU

ARRANGER

The Royal Bank of Scotland plc (trading as NatWest Markets)

250 Bishopsgate
London EC2M 4AA

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.

One Canada Square
44th Floor
London E14 5AA

Banco Santander, S.A.

Ciudad Grupo Santander Edificio Encinar
Avenida de Cantabria s/n
28660 Boadilla de Monte
Madrid

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E1 4 4BB

BNP Paribas

10 Harewood Avenue
London NW1 6AA

Lloyds Bank plc

10 Gresham Street
London EC2V 7AE

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA

MUFG Securities EMEA plc

Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

National Australia Bank Limited

ABN 12 004 044 937
88 Wood Street
London EC2V 7QQ

RBC Europe Limited

Riverbank House
2 Swan Lane
London EC4R 3BF

The Royal Bank of Scotland plc (trading as NatWest Markets)

250 Bishopsgate
London EC2M 4AA

TRUSTEE

BNY Mellon Corporate Trustee Services Limited

One Canada Square
London E14 5AL

ISSUING AND PAYING AGENT, TRANSFER AGENT AND CALCULATION AGENT

The Bank of New York Mellon, London Branch

One Canada Square
London E14 5AL

REGISTRAR, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon SA/NV, Luxembourg Branch

Vertigo Building – Polaris
2-4 rue Eugene Ruppert
L-2453 Luxembourg

AUDITORS TO EACH ISSUER

KPMG Audit Plc

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

LEGAL ADVISERS

To each Issuer as to English law

Freshfields Bruckhaus Deringer LLP

65 Fleet Street
London EC4Y 1HS

To SHEPD, SHE Transmission and SSE as to Scottish law

CMS Cameron McKenna LLP

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

To the Dealers and the Trustee as to English law

Linklaters LLP

One Silk Street
London EC2Y 8HQ