

Prospectus dated 14 September 2012



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

€750,000,000 Capital Securities

Issue Price:
99.995 per cent.

The €750,000,000 Capital Securities (the “**Securities**”) will be issued by SSE plc (the “**Issuer**”) on 18 September 2012 (the “**Issue Date**”). The Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 1 October 2017 (the “**First Reset Date**”) at a rate of 5.625 per cent. per annum, payable annually in arrear on 1 October in each year, except that the first payment of interest, to be made on 1 October 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2013 and will amount to €58.25 per €1,000 in principal amount of the Securities. Thereafter, unless previously redeemed, the Securities will bear interest from (and including) 1 October 2017 to (but excluding) 1 October 2022 at a rate per annum which shall be 4.62 per cent. above the 5 year Swap Rate (as defined in the Terms and Conditions of the Securities (the “**Conditions**”)) for the relevant Reset Period (as defined in the Conditions), payable annually in arrear on 1 October in each year. From (and including) 1 October 2022 to (but excluding) 1 October 2037 the Securities will bear interest at a rate per annum which shall be 4.87 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 October in each year. From (and including) 1 October 2037, the Securities will bear interest at a rate per annum which shall be 5.62 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 October in each year, all as more particularly described in “Terms and Conditions of the Securities — Interest Payments”.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) thereof following the occurrence of a Change of Control Event (as defined in the Conditions), the then prevailing interest rate per annum (and each subsequent interest rate per annum otherwise determined in accordance with the Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred, see “Terms and Conditions of the Securities — Interest Payments — Step-up after Change of Control”.

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on the Securities as more particularly described in “Terms and Conditions of the Securities — Optional Interest Deferral”. Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first Mandatory Settlement Date, all as more particularly described in “Terms and Conditions of the Securities — Optional Interest Deferral — Mandatory Settlement”.

The Securities will be perpetual securities in respect of which there is no fixed redemption date and shall be redeemable (at the option of the Issuer) in whole but not in part on any Reset Date (as defined in the Conditions), at the principal amount of the Securities, together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest. In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event (each such term as defined in the Conditions), the Securities shall be redeemable (at the option of the Issuer) in whole but not in part at the prices set out, and as more particularly described, in “Terms and Conditions of the Securities — Redemption”.

The Issuer may, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event, at any time, without the consent of the holders of the Securities, either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case in accordance with Condition 7 thereof and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 thereof.

The Securities will be unsecured securities of the Issuer and will constitute subordinated obligations of the Issuer, all as more particularly described in “Terms and Conditions of the Securities — Status” and “Terms and Conditions of the Securities — Subordination”.

Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as are more fully described in “Terms and Conditions of the Securities — Taxation”.

Applications will be made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Securities 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 the Securities to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to the Securities being “**listed**” (and all related references) shall mean that the Securities 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.

The Securities will initially be represented by a temporary global security (the “**Temporary Global Security**”), without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) on or about the Issue Date. The Temporary Global Security will be exchangeable for interests in a permanent global security (the “**Permanent Global Security**”) and together with the Temporary Global Security, the “**Global Securities**”), without interest coupons or talons, on or after a date which is expected to be 29 October 2012, upon certification as to non-U.S. beneficial ownership. The Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000 in the limited circumstances set out in it. No definitive Securities will be issued with a denomination above €199,000. See “Summary of Provisions relating to the Securities while in Global Form”.

The Securities are expected to be rated BBB by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”) and Baa2 by Moody’s Investors Service Ltd. (“**Moody’s**”) (each a “**Rating Agency**”). Each of Standard & Poor’s and Moody’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**”). 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.

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

JOINT STRUCTURING ADVISERS AND JOINT LEAD MANAGERS

BARCLAYS

MORGAN STANLEY

JOINT LEAD MANAGERS

BNP PARIBAS

BOFA MERRILL LYNCH

CREDIT SUISSE

CO-MANAGER

BANK OF CHINA

This Prospectus comprises a 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 the Issuer, the Issuer and its subsidiaries taken as a whole (the “**SSE Group**”) and the Securities which, according to the particular nature of the Issuer and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this 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 the documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Securities. The distribution of this Prospectus and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Securities and distribution of this Prospectus, see “Subscription and Sale” below.

No person is authorised to give any information or to make any representation not contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers. 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 the 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 the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Securities 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.

To the greatest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each Manager 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.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States or to U.S. persons.

The Securities may not be a suitable investment for all investors. Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of the relevant financial markets and of any financial variable which might have an impact on the return on the Securities; and
- (e) 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.

The Securities are complex financial instruments and such instruments may be purchased by potential investors 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 the Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of the Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Prospective investors should also consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Securities.

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) the Securities are legal investments for it, (2) the Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Unless otherwise specified or the context requires, references to “£”, “sterling”, “pounds sterling” and “penny” are to the lawful currency of the United Kingdom, references to “U.S.\$”, “\$” and “dollars” are to the lawful currency of the United States of America, references to “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 and references to “¥” are to the lawful currency of Japan.

In connection with the issue of the Securities, Barclays Bank PLC (the “Stabilising Manager”) (or any person acting on behalf of the Stabilising Manager) may over-allot the Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Issuer for the financial years ended 31 March 2011 and 31 March 2012, respectively, together in each case with the audit report thereon, and which are included on pages 78 to 151 of the 2011 Annual Report of the Issuer and pages 90 to 167 of the 2012 Annual Report of the Issuer, respectively. 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 the prospective investors in the Securities 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 Issuer and viewed on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer shall be required to prepare a supplementary prospectus pursuant to section 87G of the Financial Services and Markets Act 2000 (the “**FSMA**”), the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which, in respect of the Securities, shall constitute a supplementary prospectus as required by the UK Listing Authority and section 87G of the FSMA.

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RISK FACTORS

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

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Securities are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Securities, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Securities for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Securities 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.

Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Securities”.

Factors that may affect the Issuer’s ability to fulfil its obligations under or in connection with the Securities

The SSE Group may be affected by global economic and financial conditions

The current global economic and financial conditions may have impacts on the SSE Group’s (as defined in “Description of the Issuer”) liquidity and financial condition that cannot currently be predicted. The current economic and financial conditions could lead to reduced demand for gas and electricity, which would have a negative impact on the SSE Group’s financial position, operations and cash flows. The UK and Irish Governments are facing greater pressure on public finances, leading to a risk of increased taxation. These factors may also lead to intensified competition for market share and available margin, with consequential potential adverse effects on trading volumes. The economic and financial conditions, along with the continuing concerns about credit risk (including that of sovereigns) and the Eurozone crisis, may have a negative impact on third parties with whom the SSE Group does, or may do, business. While the ultimate outcome and impact of the current economic and financial conditions and outlook cannot be predicted with certainty, it may have a material adverse effect on the SSE Group’s future liquidity, results of operations and financial condition.

Regulatory Risk

The electricity and gas distribution and electricity transmission operations of the SSE Group are subject to direct regulation by the Gas and Electricity Markets Authority (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 on 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 price controls will permit the generation of sufficient revenues to enable the Issuer to meet its payment obligations under the Securities, and there can also be no assurance that net operating revenues generated by the SSE Group will be sufficient to enable the Issuer to meet such payment obligations. Any failure by any holder of a licence within the SSE Group to comply with the terms of their respective licences 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 Issuer and/or the SSE Group.

Plant and Network Performance

The SSE Group owns and operates a diverse range of complex generating plant, 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. The SSE Group undertakes post-event analysis following each major network event and has in place established business continuity plans, supported by contingency sites and regular testing. However 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

In order to support its core business activities, it is necessary for the SSE Group to purchase significant quantities of fuel, commodities, resources and other products and services. Although it routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials could have a significant adverse affect on its operations and/or financial position of the SSE Group.

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, a wider economic slowdown 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

Many key activities relating to electricity and gas operations are by their nature potentially hazardous. Ensuring the health and safety of its employees, contractors and the general public is a core value of the SSE Group and the Safety, Health and Environment Advisory Group of the Board of SSE has responsibility for ensuring SSE's health and safety policy is adhered to, but nevertheless a failure to comply with legislation or the occurrence of a preventable incident that results in injury or death could result in prosecution by the Health and Safety Executive.

Political, Legal and Compliance Risks

The SSE Group must at all times fully comply with its obligations in respect of all legal, regulatory, environmental and corporate governance requirements. SSE has policy and public affairs specialists based in Brussels, London, Edinburgh, Cardiff, Belfast and Dublin who engage with legislators, officials and policy-makers on all aspects of energy and related environmental policy. Failure to comply with such obligations may result in adverse publicity, fines, loss of licence or legal proceedings being commenced against members of the SSE Group. Additionally future changes in law and/or political direction could adversely impact on the SSE Group's market position, financial position or competitiveness.

Strategic Risk

It is the responsibility of the Board of Directors of the Issuer to consider carefully strategic issues including capital investment in merger projects, acquisitions, disposals, investments, market positioning, climate change, sustainable development and new technologies. Failure to do so 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. The Risk and Trading Committee oversees the major changes to treasury policy and objectives and regularly reports to the Audit Committee and Board. Although these risks are wherever possible monitored, reported on and managed within a strict framework of controls and procedures including maintaining diversity in the SSE Group's funding sources, adverse market, political or legislative developments could have a material adverse effect on the SSE Group's financial position.

Supply Chain Risks

SSE's large-scale investment programme could be adversely impacted through failure to establish, contract and maintain adequate supply chains and strategic alliances. Well established procurement teams ensure varying supply chains are identified and counterparty exposure monitored. A supplier relationship model has been put in place to build relationships with strategic suppliers and put SSE in the position of being a key customer. In the high risk categories long-term contracts are being implemented and tendering has commenced, which is designed to secure supply chains and ensure value for money. Any failure to establish, contract and maintain adequate supply chains and strategic alliances could have a material adverse effect on the SSE Group's financial position.

Joint Venture Risk

Joint ventures are in themselves a means of managing risk, but SSE's interest in them also requires careful management and oversight. This is provided through clear governance arrangement, senior manager representations on Boards and effective reporting within SSE to the Management Board and the Board as required. SSE continues to enter into joint venture arrangements, particularly for large renewable generation projects. Joint ventures are particularly critical in the development and construction of wind farms offshore. Failure to effectively manage SSE joint venture assets could result in reputational damage or destruction of value.

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 adequately respond 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 hydro electric 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 SSE Group earnings, while supply interruptions could result in adverse publicity, negative customer perception and possible regulatory action.

Reliance on IT Systems

The SSE Group relies on a number of key IT systems to manage its various business activities, including plant operation, networks, customer service activities, financial activities and energy trading operations. Failure to plan and execute suitable contingencies in the event of disruption of critical IT systems could materially adversely affect the Issuer's operations. The SSE Group has robust business continuity/disaster recovery plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given to their effectiveness going forward.

Notwithstanding anything contained in this risk factor, this risk factor should not be taken as implying that either the Issuer or any of the entities within the SSE Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Pension Funds Risk

The SSE Group is directly responsible for two defined benefit pension schemes — the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme. These schemes have been closed to new employees since 1999, and new recruits since then have been offered instead defined contribution pension arrangements. 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 SSE 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.

Capital Investment in Major Projects

In November 2010, the Issuer announced that it expects that its investment and capital expenditure will be in the range of £1.5 billion to £1.7 billion in each of the five years to March 2015. In the financial year ended 31 March 2012, its capital and investment expenditure totalled £1,706.9 million compared with £1,443.7 million in the previous year. The principal focus of the investment programme is renewable energy. At the same time, significant investment is also taking place in thermal generation, electricity networks and in a number of other areas, such as gas storage. The Issuer, through its 50 per cent. equity interest in SGN (as defined in “Description of the Issuer”), is also making a significant investment in regulated gas networks. These capital investments could potentially weaken the SSE Group’s consolidated financial profile in the shorter term, as capital expenditure on major projects is expected to exceed revenues generated by new operational assets in the business in the first few years following expenditure.

Risks related to the Securities generally

The Securities will be perpetual securities

The Securities will be perpetual securities in respect of which there is no fixed redemption date by which the Issuer would be under the obligation to redeem the Securities. See “Terms and Conditions of the Securities — Redemption”.

The Securities will be subject to optional redemption by the Issuer including upon the occurrence of Special Events

The Securities will be redeemable, at the option of the Issuer, in whole but not in part on any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event (each as defined in the Conditions and as more fully described in Condition 6), the Issuer shall have the option to redeem, in whole but not in part, the Securities at the prices set out therein, in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. In the case of a Change of Control Event, in the event that the Issuer does not elect to redeem the Securities, the then prevailing Interest Rate (as defined in the Conditions thereof), and each subsequent Interest Rate otherwise determined in accordance with Condition 4 thereof, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

Furthermore, if an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event occurs, then, subject to the provisions of Conditions 7 and 8, the Issuer may at any time, instead of giving notice to redeem the Securities, substitute all, but not some only, of the Securities for, or vary the terms of the Securities so that they remain or become, as the case may be, Qualifying Securities.

During any period when the Issuer may elect to redeem the Securities, the market value of the Securities 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 Issuer may be expected to redeem the Securities when its cost of borrowing is lower than the interest payable on them. 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 payable on the Securities 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.

The interest rate on the Securities will reset on the First Reset Date and on every Reset Date thereafter, which can be expected to affect the interest payment on the Securities and the market value of the Securities

While the Securities will earn interest at a fixed rate until (but excluding) the First Reset Date, the current market interest rate on the capital markets (the “**market interest rate**”) typically changes on a daily basis. Since the initial fixed rate of interest for the Securities will be reset on the First Reset Date (as set out in the Conditions) and on each subsequent Reset Date, the interest payment on the Securities will also change. Holders should be aware that movements in these market interest rates can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

Holders of Securities are exposed to the risk of fluctuating interest rate levels and uncertain interest income as the reset rates could affect the market value of an investment in the Securities.

The Issuer's obligations under the Securities are subordinated

The Issuer's obligations under the Securities will be unsecured and subordinated. In the event that an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a "successor in business" of the Issuer) or an administrator of the Issuer has been appointed and such administrator gives notice that it intends to declare and distribute a dividend, the claims of the Holders will rank (i) junior to the claims of holders of all Senior Obligations, (ii) *pari passu* with the claims of holders of all Parity Obligations and (iii) in priority to the claims of holders of the ordinary share capital of the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary share capital. See "Terms and Conditions of the Securities — Status" and "Terms and Conditions of the Securities — Subordination".

By virtue of such subordination, payments to a Holder will, in the events described in the Conditions, only be made after all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder may, therefore, recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Furthermore, the Conditions will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the Securities which may be incurred or assumed by the Issuer from time to time, whether before or after the Issue Date. The incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on a winding-up of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Securities. Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Securities and each Holder shall, by virtue of his holding, be deemed to have waived all such rights of set-off, compensation or retention.

Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

The Issuer has the right to defer interest payments on the Securities

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on the Securities. See "Terms and Conditions of the Securities — Optional Interest Deferral". While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities and in such event, the Holders are not entitled to claim immediate payment of interest so deferred.

Any such deferral of interest payment shall not constitute a default for any purpose unless such payment is required in accordance with Condition 5(b). Although the Issuer intends to pay all outstanding Arrears of Interest in respect of the Securities on the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, this is only a current intention, not an obligation of the Issuer. Therefore, there can be no assurance that deferred interest will be satisfied within such five year period.

Any deferral of interest payments will likely have an adverse effect on the market price of the Securities. In addition, as a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's financial condition.

The Securities may not be redeemed unless and until all outstanding Arrears of Interest are satisfied in full, on or prior to the date set for the relevant redemption.

Limited Remedies

The Conditions will provide that the Securities will be perpetual securities and there is therefore no obligation on the Issuer to repay principal on any given date. In addition, payments of interest on the Securities may be deferred in accordance with Condition 5(a) and interest will not therefore be due other than in the limited circumstances described in Condition 5(b).

The only event of default in the Conditions is if a default is made by the Issuer 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, in each case in respect of the Securities and which is due.

Therefore, it will only be possible for the Holders to enforce claims for payment of principal or interest of the Securities when the same are due.

In addition, in the event that an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a “successor in business” of the Issuer) or an administrator of the Issuer has been appointed and such administrator gives notice that it intends to declare and distribute a dividend, the claims of Holders will be subordinated to the claims of holders of all Senior Obligations as further described in Condition 3(a). Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings.

Modification, Waiver and Substitution

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

The Conditions and the Trust Deed will also provide that the Trustee may, without the consent of Holders, agree to (i) any modification of the Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is in each case following, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of, any of the Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11), (iii) the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities in place of the Issuer (or any previous Substituted Obligor (as defined in Condition 14)) as a new principal debtor under the Trust Deed and the Securities, Coupons and Talons or (iv) either (a) substitute all, but not some only, of the Securities for, or (b) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case upon the occurrence of an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**” or “**Savings Directive**”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (and similar income) paid by a person within its jurisdiction to (or for the benefit of) or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not

obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

Change of law

The Securities will be governed by English law and, in respect of Condition 3(a) only, Scots law. No assurance can be given as to the impact of any possible judicial decision or change to English law or, as the case may be, Scots law or any administrative practice thereof after the Issue Date.

Integral multiples of less than the specified denomination

The denominations of the Securities are €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000. Therefore, it is possible that the Securities may be traded in amounts in excess of €100,000, that are not integral multiples of €100,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than €100,000 will not receive a definitive Security in respect of such holding (should definitive Securities be printed) and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. If definitive Securities are issued, Holders should be aware that definitive Securities which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Risks related to the market generally

The secondary market generally

Although application will be made to admit the Securities to trading on the Market, the Securities 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 Securities 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 securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been prepared to meet the investment requirements of limited categories of investors. These types of securities 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 the Securities.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Securities in euro. This presents certain risks relating to currency or currency unit conversions if an investor's financial activities are denominated principally in a currency or a currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro 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 euro would decrease (1) the Investor's Currency equivalent yield on the Securities, (2) the Investor's Currency equivalent value of the principal payable on the Securities and (3) the Investor's Currency equivalent market value of the Securities.

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 the Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Securities. Fluctuations in interest rates can affect the market values of, and corresponding levels of capital gains or losses on, fixed rate securities. During periods of rising interest rates, the prices of fixed rate securities, such as the Securities, tend to fall and gains are reduced or losses incurred upon their sale. Therefore, investment in the Securities involves the risk that changes in market interest rates may adversely affect the value of the Securities.

Credit ratings may not reflect all risks

The credit ratings assigned to the Securities 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

Securities. 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.

OVERVIEW

The following overview refers to certain provisions of the Terms and Conditions of the Securities and is qualified by the more detailed information contained elsewhere in this Prospectus. Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Securities”.

Issuer	SSE plc.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Issue Size	€750,000,000.
Issue Date	18 September 2012.
No fixed maturity	The Securities will be perpetual securities in respect of which there is no fixed redemption date.
Interest	<p>The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) the Issue Date. Subject as described in “Optional Interest Deferral”, interest shall be payable on the Securities annually in arrear on the Interest Payment Date in each year, except that the first payment of interest, to be made on 1 October 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2013 and will amount to €58.25 per Calculation Amount.</p> <p>The Securities will bear interest from (and including) the Issue Date to (but excluding) 1 October 2017 (the “First Reset Date”) at a rate of 5.625 per cent. per annum, payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2013 and will amount to €58.25 per €1,000 in principal amount of the Securities. Thereafter, unless previously redeemed, the Securities will bear interest from (and including) 1 October 2017 to (but excluding) 1 October 2022 at a rate per annum which shall be 4.62 per cent. above the 5 year Swap Rate for the relevant Reset Period, payable annually in arrear on 1 October in each year. From (and including) 1 October 2022 to (but excluding) 1 October 2037 the Securities will bear interest at a rate per annum which shall be 4.87 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 October in each year. From (and including) 1 October 2037, the Securities will bear interest at a rate per annum which shall be 5.62 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 October in each year, all as more particularly described in “Terms and Conditions of the Securities — Interest Payments”.</p>
Status	The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> and without any preference among themselves.
Subordination	The rights and claims of the Holders and the Couponholders will be subordinated to the claims of holders of all Senior Obligations in that if at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a “successor in business” (as defined in the Trust Deed) of the Issuer) or an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders will be

subordinated in accordance with Condition 3(a) thereof. Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

Optional Interest Deferral

The Issuer may, at its discretion, elect to defer all or part of any Interest Payment (a “**Deferred Interest Payment**”) which is otherwise scheduled to be paid on an Interest Payment Date by giving a Deferral Notice of such election to the Holders. Subject as described in “Mandatory Settlement”, if the Issuer elects not to make all or part of any Interest Payment on an Interest Payment Date, then it will not have any obligation to pay such interest on the relevant Interest Payment Date and any such non-payment of interest will not constitute an Event of Default of the Issuer or any other breach of its obligations under the Securities or for any other purpose.

Arrears of Interest may be satisfied at the option of the Issuer in whole or in part at any time (the “**Optional Deferred Interest Settlement Date**”) following delivery of a notice to such effect given by the Issuer to the Holders informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

Any Deferred Interest Payment (or part thereof) shall itself bear interest (such further interest together with the Deferred Interest Payment, being “**Arrears of Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(b), in each case such further interest being compounded on each Interest Payment Date. Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(b).

Mandatory Settlement

The Issuer may give a notice as described in “Optional Interest Deferral” with regard to any amount which would otherwise be due on an Interest Payment Date in its sole discretion and for any reason.

Notwithstanding the above and the provisions of “Optional Interest Deferral”, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which an Interest Payment was deferred.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole, but not in part) on the next following Interest Payment Date.

Optional Redemption

The Issuer may redeem all, but not some only, of the Securities on any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Special Event Redemption

If a Special Event has occurred and is continuing, then the Issuer may redeem at any time all, but not some only, of the Securities at:

- (i) in the case of a Capital Event, Tax Event or Accounting Event where the relevant date fixed for redemption falls prior to the First Reset Date, 101 per cent. of their principal amount;
- (ii) in the case of a Capital Event, Tax Event or Accounting Event where the relevant date fixed for redemption falls on or after the First Reset Date, their principal amount; or
- (iii) in the case of a Substantial Repurchase Event or a Withholding Tax Event where any such redemption occurs at any time, their principal amount,

in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Change of Control

If a Change of Control Event has occurred and is continuing, the Issuer may elect to redeem all, but not some only, of the Securities at any time at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Substitution or Variation instead of Special Event Redemption

If an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event has occurred and is continuing, at any time, without the consent of the Holders, the Issuer may either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case in accordance with Condition 7 thereof and subject, *inter alia*, to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 thereof.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would itself give rise to a Special Event (other than a Substantial Repurchase Event) with respect to the Securities or the Qualifying Securities.

Event of Default

If a default is made by the Issuer 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, and which is due, then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its sole discretion may, or shall, if so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that the Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

Additional Amounts

Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the

Issuer, subject to certain exceptions as are more fully described under “Terms and Conditions of the Securities — Taxation”.

Replacement Intention

Unless the rating assigned by Standard & Poor’s to the Issuer is at least “A-” (or such similar nomenclature then used by Standard & Poor’s) and the Issuer is comfortable that such rating would not fall below this level as a result of such redemption or repurchase the Issuer intends (without thereby assuming a legal obligation), during the period from and including the issue date of the Securities to but excluding the Reset Date falling on 1 October 2037, in the event of:

- (i) an early redemption of the Securities; or*
- (ii) a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years,*

that it will redeem or repurchase such Securities only to the extent that such part of the aggregate principal amount of the relevant Securities to be redeemed or repurchased as was characterised as equity by Standard & Poor’s at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) does not exceed such part of the net proceeds which is received by the Issuer or any subsidiary of the Issuer during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or any subsidiary of the Issuer to third party purchasers (other than subsidiaries of the Issuer) of securities as is characterised by Standard & Poor’s, at the time of sale or issuance, as equity.

Form

The Securities will be in bearer form and will initially be represented by a Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. The Temporary Global Security will be exchangeable for interests in a Permanent Global Security, without interest coupons or talons, on or after a date which is expected to be 29 October 2012, upon certification as to non-U.S. beneficial ownership. The Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000 in the limited circumstances set out in it. No definitive Securities will be issued with a denomination above €199,000 in respect of the Securities. See “Summary of Provisions relating to the Securities while in Global Form”.

Denominations

€100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000.

Listing and Admission to Trading

Applications will be made to the UK Listing Authority for the Securities to be admitted to the Official List and to the London Stock Exchange for the Securities to be admitted to trading on the Market.

Governing Law

English law save for certain provisions relating to subordination which shall be governed by Scots law.

Ratings

The Securities are expected to be rated BBB by Standard & Poor’s and Baa2 by Moody’s. 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. As of the date of this Prospectus, each Rating Agency is a credit rating agency

established in the European Union and is registered under Regulation (EC) No 1060/2009 (as amended). As such each Rating Agency is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Use of Proceeds

The net proceeds of the issue of the Securities will be applied by the Issuer for general corporate purposes.

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.

Risk Factors

Prospective investors should carefully consider the information set out in “Risk Factors” in conjunction with the other information contained or incorporated by reference in this Prospectus.

ISIN

XS0829343598.

Common Code

082934359.

TERMS AND CONDITIONS OF THE SECURITIES

The following, subject to alteration by way of supplementary prospectus prior to 18 September 2012 and except for paragraphs in italics, are the terms and conditions of the Securities which will be endorsed on each Security in definitive form (if issued).

The issue of the €750,000,000 Capital Securities (the “**Securities**”, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Securities) of SSE plc (the “**Issuer**”) was authorised by resolutions of the board of directors of the Issuer passed on 15 May 2012 and 22 August 2012 and resolutions of a duly appointed committee of the board of directors of the Issuer passed on 24 August 2012 and 11 September 2012. The Securities are constituted by a trust deed (the “**Trust Deed**”) dated 18 September 2012 between the Issuer 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 holders of the Securities (the “**Holder**s”). These terms and conditions (as amended from time to time) (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities and of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)) and the Talons appertaining to Securities in definitive form. Copies of (i) the Trust Deed; and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 18 September 2012 relating to the Securities between the Issuer, The Bank of New York Mellon, London Branch as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being), The Bank of New York Mellon, London Branch as agent bank (the “**Agent Bank**”, which expression includes the Agent Bank for the time being) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Securities) (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 applicable to them of the Paying Agency Agreement.

1 FORM, DENOMINATION AND TITLE

(a) *Form and Denomination*

The Securities are serially numbered and in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000, each with Coupons and one Talon attached on issue. No definitive Securities will be issued with a denomination above €199,000. Securities of one denomination may not be exchanged for Securities of any other denomination.

(b) *Title*

Title to the Securities, Coupons and each Talon passes by delivery. The holder of any Security, Coupon or Talon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 STATUS

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Holders and the Couponholders are subordinated as described in Condition 3.

3 SUBORDINATION

(a) *General*

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a “successor in

business” (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or

- (ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each Security and Coupon (in lieu of any other payment by the Issuer), such amount, if any, as would have been payable to the Holder of such Security and Coupon if, on the day prior to the commencement of the winding-up or such administration, as the case may be, and thereafter, such Holder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares**”) having an equal right to a return of assets in the winding-up or such administration, as the case may be, and so ranking *pari passu* with, the holders of (x) that class or classes of preference shares (if any) which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of the ordinary share capital of the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary shares; and (y) Parity Obligations, but ranking junior to the claims of holders of all Senior Obligations (except as otherwise provided by mandatory provisions of law), on the assumption that the amount that such Holder was entitled to receive in respect of each Notional Preference Share on a return of assets in such winding-up or such administration, as the case may be, were an amount equal to the principal amount of the relevant Security and any accrued and unpaid interest and any outstanding Arrears of Interest.

Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

(b) Set-off

Subject to applicable law, no Holder or Couponholder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with the Securities or the Coupons and each Holder and Couponholder shall, by virtue of his holding of any Security or Coupon, be deemed to have waived all such rights of set-off, compensation or retention.

4 INTEREST PAYMENTS

(a) Interest Rate

The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) 18 September 2012 (the “**Issue Date**”) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities annually in arrear on each Interest Payment Date as provided in this Condition 4, except that the first payment of interest, to be made on 1 October 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2013.

(b) Interest Accrual

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 6 or the date of substitution thereof pursuant to Condition 7, as the case may be, unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Save as provided in Condition 4(c), where it is necessary to calculate an amount of interest in respect of any Security for a period which is less than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most

recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or first) scheduled Interest Payment Date.

Where it is necessary to calculate an amount of interest in respect of any Security for a period of more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Interest in respect of any Security shall be calculated per €1,000 in principal amount thereof (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided in Condition 4(c), be equal to the product of the relevant Interest Rate, the Calculation Amount and an Actual/Actual day count basis for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable in respect of each Security shall be the aggregate of the amounts (determined in the manner provided above) for each Calculation Amount comprising the denomination of such Security without any further rounding.

(c) First Fixed Interest Rate

For each Interest Period ending on or before the First Reset Date, the Securities bear interest at the rate of 5.625 per cent. per annum (the “**First Fixed Interest Rate**”), payable annually in arrear on the Interest Payment Date in each year, except that the first payment of interest, to be made on 1 October 2013, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2013 and will amount to €58.25 per Calculation Amount.

(d) Subsequent Fixed Interest Rates

For each Interest Period which commences on or after the First Reset Date, the Securities bear interest at the relevant Subsequent Fixed Interest Rate. Such interest shall be payable annually in arrear on the Interest Payment Date in each year and shall be calculated, except as provided in Condition 4(i) below, as follows:

$$\text{“Subsequent Fixed Interest Rate”} = 5 \text{ year Swap Rate} + \text{Margin}$$

all as determined by the Agent Bank and where,

“**5 year Swap Rate**” means the annual mid-swap rate as displayed on Reuters screen “ISDAFIX2” as at 11:00 a.m. (Central European time) (the “**Reset Screen Page**”) on the day falling two Business Days prior to the first day of the relevant Reset Period (the “**Reset Interest Determination Date**”);

In the event that the 5 year Swap Rate does not appear on the Reset Screen Page on the Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date;

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the “**Reset Reference Banks**”) to the Agent Bank at approximately 11:00 a.m. (Central European time), on such Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest);

The “**5 year Swap Rate Quotations**” means, in respect of each Interest Period falling within a Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 5 years commencing on the relevant Reset Interest Determination Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Actual/360 day count basis) and;

“**Margin**” means in respect of (i) the Reset Period ending on (but excluding) 1 October 2022, 4.62 per cent.; (ii) each Reset Period which falls in the period commencing on 1 October 2022 and ending on (but excluding) 1 October 2037, 4.87 per cent.; and (iii) each Reset Period which falls on or after 1 October 2037, 5.62 per cent.

The Subsequent Fixed Interest Rate shall be determined as provided above in respect of each Reset Period and, as so determined, such rate shall apply to each Interest Period falling within that Reset Period.

(e) *Determination of Subsequent Fixed Interest Rates*

The Agent Bank will, as soon as practicable after 11.00 hours (Central European time) on each Reset Interest Determination Date, determine the Subsequent Fixed Interest Rate in respect of each Interest Period falling within the relevant Reset Period.

(f) *Publication of Subsequent Fixed Interest Rates*

The Issuer shall cause notice of each Subsequent Fixed Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period to be given to the Trustee, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 17, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(g) *Agent Bank and Reset Reference Banks*

With effect from the First Reset Date, the Issuer will maintain an Agent Bank and five Reset Reference Banks where the Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine a Subsequent Fixed Interest Rate in respect of any Interest Period as provided in Condition 4(d), the Issuer shall forthwith appoint another leading financial institution in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(h) *Determinations of Agent Bank Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(i) *Step-up after Change of Control*

Notwithstanding any other provision of this Condition 4, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) following the occurrence of a Change of Control Event, the then prevailing Interest Rate, and each subsequent Interest Rate otherwise determined in accordance with the provisions of this Condition 4, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

5 OPTIONAL INTEREST DEFERRAL

(a) *Deferral of Payments*

The Issuer may, at its discretion, elect to defer all or part of any Interest Payment (a “**Deferred Interest Payment**”) which is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a “**Deferral Notice**”) of such election to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Interest Payment Date. Subject to Condition 5(b), if the Issuer elects not to make all or part of any Interest Payment on an Interest Payment Date, then it will not have any obligation to pay such interest on the relevant Interest Payment Date and any such non-payment of interest will not constitute an Event of Default or any other breach of its obligations under the Securities or for any other purpose.

Arrears of Interest (as defined below) may be satisfied at the option of the Issuer in whole or in part at any time (the “**Optional Deferred Interest Settlement Date**”) following delivery of a notice to

such effect given by the Issuer to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

Any Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being “**Arrears of Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(b), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(b).

(b) Mandatory Settlement

Notwithstanding the provisions of Condition 5(a) relating to the ability of the Issuer to defer Interest Payments, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which a Deferred Interest Payment first arose.

If a Mandatory Settlement Date does not occur prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole, but not in part) on the next following Interest Payment Date.

6 REDEMPTION

(a) No Fixed Redemption Date

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 3(a) and without prejudice to the provisions of Condition 13) only have the right to repay them in accordance with the following provisions of this Condition 6.

(b) Issuer’s Call Option

The Issuer may, by giving not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

(c) Redemption for Taxation Reasons

If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions at any time all, but not some only, of the Securities at (i) 101 per cent. of their principal amount (in the case of a Tax Event where such redemption occurs prior to the First Reset Date) or (ii) their principal amount (in the case of a Tax Event where such redemption occurs on or after the First Reset Date or in the case of a Withholding Tax Event where such redemption occurs at any time), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(d) Redemption for Rating Reasons

If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days’ notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these

Conditions all, but not some only, of the Securities at any time at (i) 101 per cent. of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) *Redemption for Accounting Reasons*

If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at (i) 101 per cent. of their principal amount (where such redemption occurs prior to the First Reset Date) or (ii) their principal amount (where such redemption occurs on or after the First Reset Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(f) *Redemption for Substantial Repurchase*

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(g) *Redemption for Change of Control*

If, immediately prior to the giving of the notice referred to below, a Change of Control Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

7 SUBSTITUTION OR VARIATION

If an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 8 (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 7 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 7 and subject to the receipt by it of the certificate of the directors of the Issuer referred to in Condition 8 below) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 7, as the case may be.

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as appropriate, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 6.

In connection with any substitution or variation in accordance with this Condition 7, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

Any such substitution or variation in accordance with the foregoing provisions shall not be permitted if any such substitution or variation would give rise to a Special Event (other than a Substantial Repurchase Event) with respect to the Securities or the Qualifying Securities.

In these Conditions, “**Qualifying Securities**” means securities that:

- (a) are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a guarantee of such obligations by the Issuer;
- (b) rank and (save in the case of a direct issue by the Issuer) benefit from a guarantee that ranks in relation to the obligations of the Issuer under such securities and/or such guarantee (as the case may be), equally with the Securities and *pari passu* in a winding-up or liquidation of the Issuer with any Parity Obligations of the Issuer;
- (c) contain terms not materially less favourable to Holders than the terms of the Securities, which for the avoidance of doubt does not preclude such securities from being dated subordinated securities (as reasonably determined by the Issuer (in consultation with an independent investment bank or counsel of international standing)) and which:
 - (i) provide for the same or a more favourable Interest Rate from time to time as applied to the Securities immediately prior to such substitution or variation and preserve the same Interest Payment Dates;
 - (ii) preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer as to redemption of the Securities, including (without limitation) as to timing of, and amounts payable upon, such redemption;
 - (iii) preserve any existing rights under these Conditions to any accrued interest, any Deferred Interest Payments, any Arrears of Interest and any other amounts payable under the Securities which, in each case, has accrued to Holders and not been paid;
 - (iv) do not contain terms providing for the mandatory deferral of payments of interest and/or principal;
 - (v) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; and
 - (vi) are otherwise not materially less favourable to Holders; and
- (d) are (i) listed on the Official List and admitted to trading on the London Stock Exchange plc’s Regulated Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee.

For the purposes of the definition of Qualifying Securities:

“**Official List**” means the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000; and

“**Recognised Stock Exchange**” means a recognised stock exchange as defined in section 1005 of the Income Tax Act 2007 as the same may be amended from time to time and any provision, statute or statutory instrument replacing the same from time to time.

8 PRECONDITIONS TO SPECIAL EVENT REDEMPTION, CHANGE OF CONTROL EVENT REDEMPTION, SUBSTITUTION AND VARIATION

Prior to the publication of any notice of redemption pursuant to Condition 6 (other than redemption pursuant to Condition 6(b)) or any notice of substitution or variation pursuant to Condition 7, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied, and where the relevant Special Event or, as the case may be, Change of Control Event, requires measures reasonably available to the Issuer to be taken, the relevant Special Event or, as the case may be, Change of Control Event, cannot be avoided by the Issuer taking such measures. In relation to a substitution or variation pursuant to Condition 7, such certificate shall also include further certifications that the criteria specified in paragraphs (a) to (d) of the definition of Qualifying Securities will be satisfied by the

Qualifying Securities upon issue and that such determinations were reached by the Issuer in consultation with an independent investment bank or counsel. The Trustee may rely absolutely upon and shall be entitled to accept such certificate without any liability to any person for so doing and without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders and the Couponholders.

Any redemption of the Securities in accordance with Condition 6(b), 6(c), 6(d), 6(e), 6(f) or 6(g) shall be conditional on all outstanding Arrears of Interest being paid in full in accordance with the provisions of Condition 5 on or prior to the date thereof, together with any accrued and unpaid interest up to (but excluding) such redemption, substitution or, as the case may be, variation date.

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

9 PURCHASES AND CANCELLATION

(a) Purchases

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto. The Securities so purchased, while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 14.

(b) Cancellation

All Securities redeemed or substituted by the Issuer pursuant to Condition 6 or 7, as the case may be, (together with all unmatured Coupons and unexchanged Talons relating thereto) will forthwith be cancelled. All Securities purchased by the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons) to the Principal Paying Agent. Securities so surrendered, shall be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached). Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

10 PAYMENTS

(a) Method of Payment

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on an Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Securities. Such payments will be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System.
- (ii) Each Security should be presented for redemption together with all unmatured Coupons relating to it in respect of the Interest Periods which fall prior to the First Reset Date, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than five years after the due date for the relevant payment of principal.
- (iii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security in respect of any Interest Period commencing on or after the First Reset Date (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it,

redemption shall be made only against the provision of such indemnity as the Issuer may require.

- (iv) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 13).

(b) *Payments Subject to Fiscal Laws*

Without prejudice to the terms of Condition 12, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

(c) *Payments on Business Days*

A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day which is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition, “business day” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

11 EVENT OF DEFAULT

(a) *Proceedings*

If a default is made by the Issuer 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, in each case in respect of the Securities and which is due (an “**Event of Default**”), then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its sole discretion may, notwithstanding the provisions of Condition 11(b) but subject to Condition 11(c), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that the Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

(b) *Enforcement*

The Trustee may at its discretion (subject to Condition 11(c)) and without further notice institute such proceedings or take such steps or actions against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Securities or the Coupons but in no event shall the Issuer, by virtue of the institution of any such proceedings, steps or actions, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

(c) *Entitlement of Trustee*

The Trustee shall not be bound to take any of the actions referred to in Condition 11(a) or 11(b) above against the Issuer to enforce the terms of the Trust Deed, the Securities or the Coupons or any other action or step unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

(d) *Right of Holders*

No Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.

(e) **Extent of Holders' remedy**

No remedy against the Issuer, other than as referred to in this Condition 11, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities, Coupons or under the Trust Deed.

12 TAXATION

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Securities 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 (“**Additional Amounts**”) as shall result in receipt by the Holders and the 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 Security or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a Holder or Couponholder who is liable to such Taxes in respect of such Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Security or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union or making any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

References in these Conditions to principal, premium, Interest Payments, Deferred Interest Payments, Arrears of Interest and/or any other amount in respect of interest shall be deemed to include any Additional Amounts which may become payable pursuant to the foregoing provisions or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

13 PRESCRIPTION

Claims in respect of Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 13 or Condition 10(a)(iii).

14 MEETINGS OF HOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of Holders 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 Holders holding not less than 10 per cent. in principal amount of the Securities for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, *inter alia*, the provisions regarding subordination referred to in Condition 3, the terms concerning currency and due dates for payment of principal, any applicable premium or Interest Payments in respect of the Securities and

reducing or cancelling the principal amount of any Securities, any applicable premium or the Interest Rate) and certain other provisions of the Trust Deed as set out in the Trust Deed, the quorum shall be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Securities for the time being outstanding.

The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 7 in connection with the substitution or variation of the terms of the Securities so that they become Qualifying Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 7.

An Extraordinary Resolution passed at any meeting of Holders will be binding on all Holders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is in each case following, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of any of these Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and such modification shall be notified to the Holders as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities (any such entity, a “**Substituted Obligor**”) in place of the Issuer (or any previous Substituted Obligor under this Condition) as a new principal debtor under the Trust Deed, the Securities, the Coupons and the Talons.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 14), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders except to the extent already provided in Condition 12 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 17 as soon as practicable thereafter.

15 REPLACEMENT OF THE SECURITIES, COUPONS AND TALONS

If any Security, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Holders, 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 Security, 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 Securities, Coupons

or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Securities, Coupons or Talons must be surrendered before any replacement Securities, Coupons or Talons will be issued.

16 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of, and/or provision of security and/or prefunding for, 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. The Trustee may rely without liability to Holders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Holders.

17 NOTICES

Notices to Holders will be valid if published in a daily newspaper having general circulation in London (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in another leading daily English language newspaper of 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, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Holders in accordance with this Condition.

18 FURTHER ISSUES

The Issuer may from time to time without the consent of the Holders or the Couponholders create and issue further Securities ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Securities) and so that such further issue shall be consolidated and form a single series with the outstanding Securities. Any such Securities shall be constituted by a deed supplemental to the Trust Deed.

19 AGENTS

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right, subject to the approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents, provided that it will:

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain Paying Agents having specified offices in at least two major European cities approved by the Trustee;
- (c) whenever a function expressed in these Conditions to be performed by the Agent Bank, the Determination Agent or by the Rate Reference Banks falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank and/or, as appropriate, Rate Reference Banks; and
- (d) at all times maintain a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 17. If any of the Agent Bank or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank or the Principal Paying Agent in relation to the Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

20 GOVERNING LAW

The Trust Deed, the Securities, 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, the laws of England save for the provisions contained in Condition 3(a) which shall be governed by the laws of Scotland.

21 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

22 DEFINITIONS

In these Conditions:

an “**Accounting Event**” shall be deemed to occur if, as a result of a change in accounting principles the obligations of the Issuer under the Securities must not or may no longer be recorded as “equity” in the next following audited annual consolidated financial statements of the Issuer prepared in accordance with IFRS or any other accounting standards that the Issuer may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with United Kingdom company law;

“**Agent Bank**” has the meaning given to it in the preamble to these Conditions;

“**Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks and foreign exchange markets are open for general business in London and the TARGET System is operating;

“**Calculation Amount**” has the meaning given to it in Condition 4(b);

a “**Capital Event**” shall be deemed to occur if the Issuer has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency of a change in its assessment criteria such that the Securities will no longer be eligible for the same, or a higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) as was attributed to the Securities at the Issue Date;

a “**Change of Control Event**” shall be deemed to occur if:

- (a) a Change of Control occurs; and
- (b) 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), any of the Issuer’s senior unsecured obligations (the “**Senior Unsecured Obligations**”) 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 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 Senior Unsecured Obligations by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Senior Unsecured Obligations an investment grade credit rating (BBB-/Baa3 or their respective equivalents for the time being) or better within the Change of Control Period; and

- (c) 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.

For the purposes of the definition of a Change of Control Event:

a “**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;

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 Senior Unsecured Obligations 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 any of the Senior Unsecured Obligations 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;

“**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 any of the Senior Unsecured Obligations 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 Rating Downgrade**” shall be deemed to have occurred in respect of a Change of Control if the then current rating assigned to the Senior Unsecured Obligations 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 Senior Unsecured Obligations 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+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Senior Unsecured Obligations below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB/Ba2 or such similar lowering); and

“**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 “**Compulsory Arrears of Interest Settlement Event**” shall have occurred if:

- (i) a dividend (either interim or final), other distribution or payment was validly resolved on, declared, paid or made in respect of (a) ordinary shares of the Issuer, (b) any obligations of the Issuer which rank or are expressed to rank *pari passu* with the ordinary shares of the Issuer or (c) any obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which rank, or are expressed to rank, *pari passu* with the ordinary shares of the Issuer, except where (x) such dividend, other distribution or payment was required to be resolved on, declared, paid or made in respect of any stock option plans or employees’ share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such dividend, distribution or other payment; or
- (ii) a dividend (either interim or final), other distribution or payment was validly resolved on, declared, paid or made in respect of any Parity Obligations of the Issuer, except where such dividend, distribution or payment was required to be declared, paid or made under the terms of such Parity Obligations of the Issuer; or
- (iii) the Issuer has repurchased or otherwise acquired (a) any ordinary shares of the Issuer, (b) any obligations of the Issuer which rank or are expressed to rank *pari passu* with the ordinary shares of the Issuer or (c) any obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which rank, or are expressed to rank, *pari passu* with

the ordinary shares of the Issuer, except where (x) such repurchase or acquisition was undertaken in respect of any stock option plans or employees' share schemes of the Issuer or (y) the Issuer is obliged under the terms of such securities to make such repurchase or acquisition; or

- (iv) the Issuer, or any subsidiaries of the Issuer, has redeemed, repurchased or otherwise acquired any Parity Obligations of the Issuer, except where (x) such redemption, repurchase or acquisition is effected as a public cash tender offer or public exchange offer at a purchase price per security which is below its par value or (y) the Issuer, or any subsidiaries of the Issuer, is obliged under the terms of such securities to make such redemption, repurchase or acquisition;

“**Conditions**” means these terms and conditions of the Securities, as amended from time to time;

“**Coupon**” has the meaning given to it in the preamble to these Conditions;

“**Couponholder**” has the meaning given to it in the preamble to these Conditions;

“**Deferred Interest Payment**” has the meaning given to it in Condition 5(a);

“**euro**” or “**€**” means 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;

“**First Fixed Interest Rate**” has the meaning given to it in Condition 4(c);

“**First Reset Date**” means 1 October 2017;

“**Holder**” has the meaning given to it in the preamble to these Conditions;

“**Interest Payment**” means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Interest Period in accordance with Condition 4;

“**Interest Payment Date**” means 1 October in each year, commencing on (and including) 1 October 2013;

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

“**Interest Rate**” means the First Fixed Interest Rate and/or each Subsequent Fixed Interest Rate, as the case may be;

“**Issue Date**” has the meaning given to it in Condition 4(a);

“**Issuer**” means SSE plc;

“**Mandatory Settlement Date**” means the earlier of:

- (i) the date on which a Compulsory Arrears of Interest Settlement Event occurs; or
- (ii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or Condition 11;

“**Parity Obligations**” means (if any) (i) the most junior class of preference share capital in the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities or such preference shares and (ii) any obligations of any subsidiaries of the Issuer benefiting from a guarantee or support agreement entered into by the Issuer which ranks, or is expressed to rank, *pari passu* with the Securities;

For the avoidance of doubt, Parity Obligations include the Issuer's €500,000,000 Capital Securities (ISIN: XS0541656509) and the Issuer's £750,000,000 Capital Securities (ISIN: XS0540658688);

“**Paying Agency Agreement**” has the meaning given to it in the preamble to these Conditions;

“**Paying Agents**” has the meaning given to it in the preamble to these Conditions;

“**Principal Paying Agent**” has the meaning given to it in the preamble to these Conditions;

“**Qualifying Securities**” has the meaning given to it in Condition 7;

“**Rating Agency**” means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors or Moody's Investors Service, Inc. or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted

substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of the Holders);

“**Relevant Date**” means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 17, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Reset Date**” means the First Reset Date and each date falling on the fifth anniversary of the First Reset Date;

“**Reset Period**” means the period from one Reset Date to the next following Reset Date;

“**Reset Reference Banks**” means five major banks in the euro-zone interbank market as selected by the Agent Bank, after consultation with the Issuer;

“**Securities**” has the meaning given to it in the preamble to these Conditions;

“**Senior Obligations**” means all obligations of the Issuer, issued directly or indirectly by it, other than Parity Obligations and the ordinary share capital of the Issuer;

“**Special Event**” means any of an Accounting Event, a Capital Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event or any combination of the foregoing;

“**Subsequent Fixed Interest Rate**” has the meaning given to it in Condition 4(d);

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

“**Substantial Repurchase Event**” shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer repurchases (and effects corresponding cancellations) or redeems Securities in respect of 90 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further Securities issued pursuant to Condition 18);

“**Talons**” has the meaning given to it in the preamble to these Conditions;

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

a “**Tax Event**” shall be deemed to have occurred if as a result of a Tax Law Change:

- (i) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (ii) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 14 September 2012 or any similar system or systems having like effect as may from time to time exist);

and, in each case the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it;

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 14 September 2012;

“**Trust Deed**” has the meaning given to it in the preamble to these Conditions;

“**Trustee**” has the meaning given to it in the preamble to these Conditions;

“**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland; and

a “**Withholding Tax Event**” shall be deemed to occur if as a result of a Tax Law Change, in making any payments on the Securities, the Issuer has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts on the Securities and the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it.

Unless the rating assigned by S&P to the Issuer is at least “A-” (or such similar nomenclature then used by S&P) and the Issuer is comfortable that such rating would not fall below this level as a result of such redemption or repurchase the Issuer intends (without thereby assuming a legal obligation), during the period from and including the issue date of the Securities to but excluding the Reset Date falling on 1 October 2037, in the event of:

- (i) an early redemption of the Securities, or*
- (ii) a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years,*

that it will redeem or repurchase such Securities only to the extent that such part of the aggregate principal amount of the relevant Securities to be redeemed or repurchased as was characterised as equity by S&P at the time of their issuance (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities) does not exceed such part of the net proceeds which is received by the Issuer or any subsidiary of the Issuer during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer or any subsidiary of the Issuer to third party purchasers (other than subsidiaries of the Issuer) of securities as is characterised by S&P, at the time of sale or issuance, as equity.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

The Temporary Global Security and the Permanent Global Security will contain provisions which apply to the Securities while they are in global form, some of which modify the effect of the Conditions of the Security. The following is a summary of certain of those provisions as they relate to the Securities:

1 EXCHANGE

The Temporary Global Security is exchangeable in whole or in part for interests in the Permanent Global Security on or after a date which is expected to be 29 October 2012, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Security. The Permanent Global Security is exchangeable in whole but not in part (free of charge to the Holder) for the definitive Securities described below if the Permanent Global Security is held on behalf of a clearing system and 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 does in fact do so. Thereupon, the Holder may give notice to the Principal Paying Agent of its intention to exchange the Permanent Global Security for definitive Securities on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the Holder of the Permanent Global Security may surrender the Permanent Global Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Security the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security and a Talon for further Coupons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Permanent Global Security, the Issuer will, if the Holder so requests, procure that it is cancelled and returned to the Holder together with any definitive Securities.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

2 PAYMENTS

No payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal, premium and interest in respect of Securities represented by a Global Security will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of such Global Security to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Security, which endorsement will be prima facie evidence that such payment has been made in respect of the Securities. Condition 12(d) and Condition 19(d) will apply to the definitive Securities only. For the purpose of any payments made in respect of a Global Security, Condition 10(c) shall not apply, and all such payments shall be made on a day on which the TARGET system is operating and on which commercial banks and foreign exchange markets are open in London.

3 NOTICES

So long as the Securities are represented by the Permanent Global Security and the Permanent Global Security is held on behalf of a clearing system, notices to Holders 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.

4 PRESCRIPTION

Claims against the Issuer in respect of principal, premium and interest on the Securities while the Securities are represented by the Permanent Global Security will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

5 MEETINGS

The Holder of the Permanent Global Security shall (unless the Permanent Global Security represents only one Security) be treated as being two persons for the purposes of any quorum requirements of a meeting of Holders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of the Securities.

6 PURCHASE AND CANCELLATION

Cancellation of any Security required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Security.

7 TRUSTEE'S POWERS

In considering the interests of Holders while the Permanent Global Security is held on behalf of 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 the Permanent Global Security and may consider such interests as if such accountholders were the holders of the Permanent Global Security.

DESCRIPTION OF THE ISSUER

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 1 October 2011 (SSE and its subsidiaries being the “**SSE Group**”).

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
Lord Smith of Kelvin	Chairman (Non-Executive)
Ian Marchant	Chief Executive
Gregor Alexander	Finance Director
Alistair Phillips-Davies	Generation and Supply Director
Lady Rice CBE	Senior Independent Director
Thomas Thune Andersen	Non-Executive Director
Richard Gillingwater	Non-Executive Director
Jeremy Beeton	Non-Executive Director
Katie Bickerstaffe	Non-Executive Director

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

- **Lord Smith** of Kelvin is Chairman of the Weir Group plc and of Glasgow 2014 Ltd. He serves as a non-executive Director of Standard Bank Group Ltd. He is also Chancellor of the University of the West of Scotland.
- **Ian Marchant** is Senior Independent Director of John Wood Group plc and a non-Executive Director of Maggie’s Cancer Centres. He is also Chairman of the Scotland 2020 Delivery Group, co-Chairman of the Energy Technology Partnership Advisory Board and a member of Ofgem’s Environmental Advisory Board and the Scottish Energy Advisory Board.
- **Gregor Alexander** is Chairman of Scotia Gas Networks.
- **Alistair Phillips-Davies** currently has no significant outside activities.
- **Lady Rice CBE** is Managing Director of the Lloyds Banking Group Scotland. She chairs the Boards of the Edinburgh International Book Festival and the Edinburgh Festivals Forum, is a non-executive director of the Court of the Bank of England and a member of the First Minister’s Council of Economic Advisers.
- **Thomas Thune Andersen** is the Chairman of Lloyds Register Group and DeepOcean Group, Vice Chairman of the VKR Holding Group (VELUX) and a non-Executive Director of Petrofac Plc.
- **Richard Gillingwater** is Dean of Cass Business School and is a non-executive Chairman of CDC Group plc and the Senior Independent Director of Hiscox plc.
- **Jeremy Beeton** is the Director General of the UK Government Olympic Executive.
- **Katie Bickerstaffe** is Chief Executive – UK and Ireland of Dixons Retail plc.

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 Investments

Statoil gas supply agreement

In June 2011, SSE and Statoil (UK) Limited (“**Statoil**”) agreed to enter into a 10-year contract for the annual supply of 500 million cubic metres (“**mcm**”) of natural gas, to be delivered to SSE’s Peterhead power station via the St. Fergus gas terminal.

Delivery of gas is due to begin in the final quarter of 2012. The price of the gas supplied under the agreement will be linked to prevailing prices in the natural gas market. The agreement will also contain provisions to allow the supply of gas to be diverted to help meet SSE’s other requirements if the Peterhead power station is undergoing maintenance or repair work.

In a typical year, Peterhead power station consumes 1,500 mcm of gas and produces enough electricity to supply around two million households.

Aquamarine Power

In September 2011, SSE invested a further £3.0 million in wave energy company, Aquamarine Power, taking its total investment to £24.7 million and giving it a 27.5 per cent. equity interest in the company. ABB Technology Ventures (“**ABB**”), the technology investment arm of ABB Group, has also invested £3.0 million and £1 million has been invested by Scottish Enterprise, the Scottish Government’s enterprise agency, via the Scottish Investment Bank.

In addition, Aquamarine Power’s existing major shareholders (SSE, ABB and Scottish Enterprise) are working together to develop a further funding package of an expected £18 million to take the company’s products to commercialisation in 2014.

Bath & West Community Energy

In October 2011, SSE entered into an innovative new partnership with Bath & West Community Energy (“**BWCE**”), a community based social enterprise that is seeking to create a community-owned and financially sustainable enterprise and that is intended to make a major contribution to local, renewable energy targets.

SSE has provided BWCE with a £0.7 million start up loan to fund 400kW of Solar Photovoltaic (“**Solar PV**”) installations covering up to 12 projects in the Bath and Corsham area – mainly involving local schools. BWCE is also launching a share issue to raise £400,000 to fund further renewable energy developments.

SSE’s energy solutions business will install, monitor and maintain the Solar PV systems and expects to act as a long term partner as BWCE seeks to develop new projects.

Environmental Energies Fund

In January 2012, SSE, through its wholly owned SSE Ventures business, completed a deal with Scottish Equity Partners (“**SEP**”) that involved SEP’s new Environmental Energies Fund (“**EEF**”) acquiring a portfolio of ‘clean technology’ investments previously owned by SSE Ventures. As part of the deal, SSE Ventures has become a major partner in the new fund.

EEF has acquired nine investments from the SSE Ventures portfolio, all of which are market leaders from across the clean energy spectrum. The fund is expected to have substantial fresh capital available for investment in the portfolio and also has an agreement to add up to five further SSE investments to the portfolio in future.

NuGeneration Ltd

In February 2012, SSE completed the sale of its 25 per cent. stake in NuGeneration Ltd (“**NuGen**”), the joint venture company established to develop proposals for a new nuclear power station in West Cumbria, to NNB Development Company S.A. (“**NNBD**”), a 50:50 joint venture between GDF Suez S.A. and Iberdrola S.A. The stake has been sold for an upfront cash consideration of £5.75 million with a further contingent payment of £1.25 million dependent on progress with the development of the West Cumbria site.

SSE announced its intention to dispose of its stake in NuGen in September 2011 after concluding that, for the time being, its resources are better deployed on business activities and technologies where it has greater knowledge and experience.

NuGen has an option to purchase the lease of land near Sellafield in West Cumbria for the development of a new nuclear power station, of up to 3.6 gigawatts (“**GW**”). The option was secured in October 2009 for an initial cash consideration of £19.5 million (SSE’s share was 25 per cent.) and the site was named as a suitable place to build a new nuclear power station in the National Policy Statement for Nuclear Power Generation published in June 2011.

Shell gas supply agreement

In February 2012, SSE and Shell Energy Europe (“**Shell**”) agreed a 10-year gas supply agreement of 790 mcm (292 megatherm (“**Mth**”)) per annum, commencing in 2015. This represents approximately 5% of SSE’s forecast typical annual gas requirements. The gas will be supplied as a firm delivery of 800,000 therms (“**th**”) per day, at a price linked to prevailing prices in the natural gas market.

The structure of the agreement is consistent with the gas purchasing profile SSE needs to support its business contracts and generation requirements, and is intended to reduce its reliance on market purchases.

Ferrybridge Multifuel

In April 2012, SSE and Wheelabrator Technologies Inc. entered into a 50:50 joint venture to develop a new £300 million multifuel generation facility at SSE’s Ferrybridge power station in West Yorkshire.

The joint venture, Multifuel Energy Ltd (“**MFE**”), expects to begin full construction of a 68 megawatt (“**MW**”) multifuel facility in late 2012 and complete the project by early 2015. Hundreds of jobs are expected to be created during the three year construction period and over 50 new full time jobs are expected to be required once the plant is fully operational. Construction will be undertaken by Hitachi Zosen Inova, which has extensive experience on similar multifuel projects.

The facility will use a range of waste-derived fuels to generate electricity and heat. Consent to develop the facility was received from the Department of Energy and Climate Change in October 2011. When operational, the electricity generated by the plant will be sold to SSE.

MFE has entered into a long-term fuel procurement contract with 3SE (SSE’s joint venture with Shanks Plc) under which MFE will provide processed waste-derived fuels using waste taken from nearby Barnsley, Rotherham and Doncaster councils. To support this contract 3SE intends to develop a new Mechanical Biological Treatment (“**MBT**”) and Anaerobic Digestion (“**AD**”) facility at Bolton Road, Manvers. Subject to obtaining planning permission, the MBT and AD facility are expected to be operational by 2015.

The multifuel plant to be developed at Ferrybridge power station is not intended to replace the existing 1,000MW of coal combustion capacity which is closing in 2015 due to the European Large Combustion Plant Directive (2001/80/EC) (“**LCPD**”). SSE has not yet made a decision on the future main use of Ferrybridge power station, which is currently also home to the UK’s largest carbon capture trial, CCPilot100+, being conducted in association with Doosan Power Systems and Vattenfall.

Phoenix Supply Limited & Phoenix Energy Limited

In June 2012, SSE, through its wholly-owned subsidiary Airtricity Energy Supply (Northern Ireland) Limited, completed the acquisition of Phoenix Supply Limited, a regulated supplier of natural gas to approximately 130,000 customers in Northern Ireland, from Phoenix Energy Holdings Limited, a Terra Firma company.

In addition, SSE, through its wholly-owned subsidiary Airtricity Limited (registered in the Republic of Ireland), acquired Phoenix Energy Limited on 25 June 2012, which supplies gas in the Republic of Ireland’s deregulated commercial supply market.

The total cash consideration is £19.1 million excluding working capital related adjustments. The acquisition was approved by the Irish Competition Authority.

Following the acquisition of Phoenix Supply Limited and Phoenix Energy Limited, SSE will provide energy and energy related services to over 750,000 gas and electricity customers in the Northern Ireland and Republic of Ireland markets. SSE also owns and operates 500MW of wind farm capacity on the island comprising Northern Ireland and the Republic of Ireland.

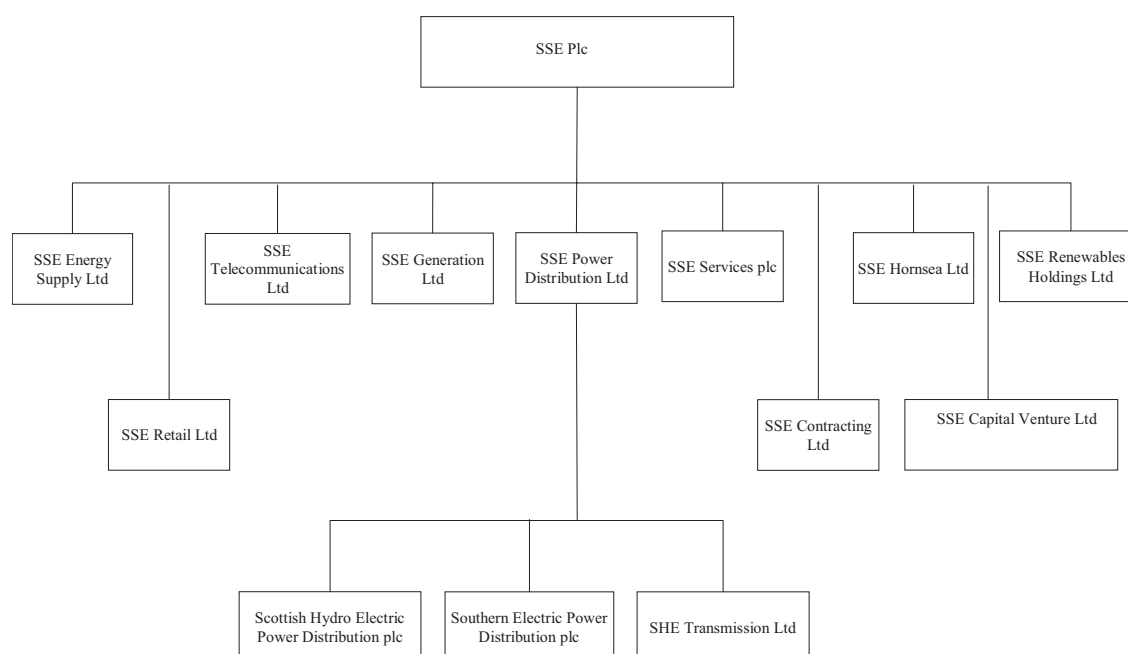
Acquisition of Electricity Generation Assets in Ireland

In June 2012 SSE, through its wholly-owned subsidiary SSE Generation Ltd., entered into an agreement with Endesa Generacion SA, to acquire the shares of Endesa Ireland Limited, the assets of which include plant in operation, under construction and with consent for development, for a total cash consideration of €320 million (£256 million) plus an estimated €43 million (£34 million) for working capital. This acquisition will assist SSE to deliver a balanced generation and supply business in Ireland.

The acquisition is subject to, amongst other things, approval by the Irish Competition Authority and SSE expects to complete the purchase during the summer of 2012, at which point around 110 employees of Endesa Ireland Limited will transfer to SSE.

The SSE Group

SSE Group – Principal Subsidiaries as at 31 March 2012



The SSE Group is the UK’s broadest based energy company. The SSE Group’s principal activities are the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; other energy-related services such as mechanical and electrical contracting; and telecoms. Its core purpose is to provide the energy people need in a reliable and sustainable way. Its principles are effective management of core businesses, maintenance of a strong balance sheet, making well-founded investments, taking a selective and disciplined approach to acquisitions and using share buy-backs as the benchmark for investments. It differentiates itself by maintaining a consistent strategy, having a strong track record of delivery and assesses generation, transmission, distribution and supply as a single value chain in a vertically integrated business.

The SSE Group owns approximately 11,860 megawatts (“**MW**”) of gas and oil fired, coal and biomass-fired, hydro, pumped storage and wind power stations in Scotland, England, Northern Ireland and the Republic of Ireland. Its portfolio of power stations is the second largest and most diverse in the UK and it is also the leading generator of electricity from renewable sources. SSE regards its large and diverse generation portfolio as a hedge against fossil fuel price exposure.

SSE owns three electricity network companies: Scottish Hydro Electric Power Distribution (“**SHEDP**”), Southern Electric Power Distribution (“**SEPD**”) and Scottish Hydro Electric Transmission Limited (“**SHETL**”). The SSE Group supplies electricity and gas to around 9.55 million customers via the Southern Electric, SWALEC, Scottish Hydro Electric, Atlantic Electric and Airtricity brands. These brands offer a range of energy-related products and services. SSE is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Together, these lower risk economically regulated natural monopoly businesses, featuring Retail Prices Index inflation-

linked revenue, provide a financial backbone and operational focus for SSE and balance its activities in the competitive generation and supply markets.

The SSE Group distributes electricity to over 3.7 million homes, offices and businesses via approximately 130,000 kilometres of overhead lines and underground cables across one third of the UK's land mass. It is the second largest electricity distributor in the UK, with a regulatory asset value ("RAV") of £2.8 billion as at 31 March 2012.

The SSE Group's electricity transmission network is owned by SHETL and covers approximately 70 per cent. of Scotland. A series of major developments to the electricity transmission network are under way which is transforming the scale and scope of SHETL. A total of £173 million was invested in these projects during the financial year ended 31 March 2012 and completion is expected to take SHETL's RAV from £0.77 billion as at 31 March 2012 to over £1.0 billion by the end of March 2013 and to approximately £1.6 billion by the end of March 2015. In the financial year ending 31 March 2013, SHETL expects to incur capital expenditure of over £350 million. SHETL's business plan has the flexibility to increase investment by up to a further £4.0 billion if required, to upgrade the transmission network in the period 2013 to 2021. Projects currently being developed and which could be constructed during the period include the Western Isles link, the Caithness to Moray subsea electricity cable and the Shetland link. Based on current estimates these developments could require investment of around £1.4 billion and would form part of the £4.0 billion increased investment.

SSE owns 50 per cent. of Scotia Gas Networks Limited ("SGN"), the second largest gas distribution company in the UK, which distributes gas to 5.7 million industrial, commercial and domestic customers in Scotland and the south of England through its subsidiaries Scotland Gas Networks plc and Southern Gas Networks plc (representing a 50 per cent. share of the £4.54 billion RAV as at 31 March 2012). SSE also provides corporate and management services for SGN and its subsidiaries.

SSE Contracting Limited is one of the largest mechanical and electrical contracting businesses in the UK. It operates from regional offices throughout the UK. It is, amongst other things, the UK's largest street lighting contractor, responsible for maintaining around 1.5 million lighting units.

SSE owns the fourth largest telecoms network in the UK with a 11,200 kilometre network comprising of fibre optic cabling, leased lit fibre and microwave radio, providing capacity and bandwidth services for companies, public sector organisations and internet service providers. Additionally, SSE owns and operates 118 out-of-area electricity networks. A further 43 networks are under construction and contracts have been signed for the development of an additional 5, taking the total number of out-of-area electricity networks owned and operated by SSE to 166.

In March 2010, SSE completed the in-sourcing of its meter reading and electricity meter operation services throughout the UK. In total SSE owns 3.8 million meters. During the year ended 31 March 2012, SSE completed 9.1 million electricity readings and 5.8 million gas readings. Longer term, SSE's UK wide metering team will be able to support the transition to smart meters which will take place in the coming decade and will help SSE deploy other energy-relation services and products.

SSE also owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire, in which approximately 325 million cubic metres ("mcm") of gas can be stored in a total of nine caverns. Hornsea accounts for approximately 7 per cent. of the total gas storage capacity in the UK and 15 per cent. of deliverability. With Statoil (UK) Ltd ("Statoil"), SSE is developing another gas storage facility at nearby Aldbrough, where an initial 170mcm of capacity in six caverns is already available for commercial operation. A further 160mcm of capacity is expected to become available by the late autumn of 2012. SSE's forecast total investment in respect of the Aldbrough development remains around £290 million. When fully commissioned, Aldbrough will have the capacity to inject gas and store up to 330mcm in nine under ground caverns (of which SSE will own two thirds). SSE and Statoil have consent to increase the storage capacity at the Aldbrough site beyond that currently under development but concluded during 2010 that an investment decision on the development should be deferred while the UK Government develops its policy on gas security.

A key milestone for SSE in 2011 was its acquisition from Hess Limited of North Sea natural gas and infrastructure assets. This acquisition was a measured entry by SSE into non-operated upstream assets. Following from the significant learning and experience gained, SSE intends to increase its presence in the upstream fuel sector if assets can be acquired for a fair price. In doing so, SSE aims to diversify further its sources of primary fuel and provide a hedge for its gas-fired generation and gas supply activities. Total output during the year to 31 March 2012 was 176.7Mth, compared with 27.6Mth in the period from acquisition in February 2011 to March 2011.

To improve transparency in its financial statements from 31 March 2012 SSE will report segmental analysis which splits “Generation and Supply” into “Wholesale” and “Retail”. For the year ended 31 March 2012, operating profit (before exceptional items and certain remeasurements and adjusted to remove the SSE Group’s share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates) was split as follows: 37 per cent. Wholesale, 19 per cent. Retail and 44 per cent. energy networks.

Listed on the London Stock Exchange, SSE was the UK’s 29th largest company by market capitalisation on 31 March 2012. Its strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Within this strategic framework, SSE focuses on enhancing and creating value for shareholders from its energy and infrastructure-related activities in the UK and Ireland.

Borrowings 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. Its average debt maturity as at 31 March 2012 was 9.3 years, compared with 10.6 years at 31 March 2011 and 11.0 years at 31 March 2010.

SSE’s debt structure remains strong, with around £5.1 billion of medium-to-long-term borrowings as at 31 March 2012 in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. £101 million of medium-to-long-term borrowings will mature in the year to 31 March 2013 and £1,488 million of medium-to-long-term borrowings will mature in the year to 31 March 2014. The balance of SSE’s adjusted net debt is financed with short-term commercial paper and bank debt. The facilities, external debt and internal loan stocks for the SSE Group as at 31 March 2012 (with sterling equivalents (where applicable) as at that date) are as follows:

SSE	<ul style="list-style-type: none"> ● €600 million 6.125 per cent. bonds due 2013 (£500.3 million of principal outstanding) ● £700 million 5.75 per cent. bonds due 2014 ● \$100 million floating rate notes due 2015 (£61.5 million of principal outstanding) ● £500 million 5 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 ● ¥28 billion (£208.7 million) Samurai loan maturing 2013 ● £391 million short-term commercial paper issued under SSE’s €1.5 billion euro commercial paper programme ● £900 million revolving credit facility maturing 2015 (undrawn) ● £100 million revolving credit facility maturing 2015 (undrawn) ● £253.8 million non-recourse funding relating to street lighting projects ● £185.1 million other short term loans ● £100 million European Investment Bank loan due 2020 ● £300 million European Investment Bank loan due 2021
SSE Generation Limited	<ul style="list-style-type: none"> ● £100 million European Investment Bank loans ● £1.050 billion intercompany loan stock due to SSE

SSE Renewables Holdings Limited	<ul style="list-style-type: none"> • £8.1 million external bank debt
SHEPD	<ul style="list-style-type: none"> • £75 million European Investment Bank loans • £118.4 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"> • £5.5 million European Investment Bank loans • £350 million 5.5 per cent. bonds due 2032 • £325 million 4.625 per cent. bonds due 2037 • £110.4 million 4.454 per cent. index linked loan maturing 2044
SHETL	<ul style="list-style-type: none"> • £25 million European Investment Bank loans • £313.1 million intercompany loan stock due to SSE
SSE Energy Supply Limited	<ul style="list-style-type: none"> • £250 million intercompany loan stock due to SSE
SSE Service plc	<ul style="list-style-type: none"> • £30 million intercompany loan stock due to SSE
SSE Hornsea Limited	<ul style="list-style-type: none"> • £200 million intercompany loan stock due to SSE
SSE E&P UK Limited	<ul style="list-style-type: none"> • £180 million intercompany loan stock due to SSE
Keadby Generation Limited	<ul style="list-style-type: none"> • £600 million intercompany loan stock due to SSE
Roctron (Widnes) Limited	<ul style="list-style-type: none"> • £24.4 million intercompany loan stock due to SSE

In addition to the borrowings and facilities listed above, in February 2012 SSE undertook a US private placement of senior notes for a total consideration of \$700 million (equivalent to £446.4 million) with proceeds being received in April 2012. The senior notes were issued over four tranches at an average maturity of 10.3 years and an average all-in-cost of around 4.25 per cent.

Hybrid Capital

On 20 September 2010, SSE issued €500 million and £750 million bonds (hybrid capital). They 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 1 October 2015 or 1 October 2020 or any subsequent coupon payment date after this. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to the compliance of certain conditions including no dividend having been declared on the Ordinary Shares. The hybrid capital for the SSE Group as at 31 March 2012 (with sterling equivalents (where applicable) as at that date) are as follows:

SSE	<ul style="list-style-type: none"> • £750 million Capital Hybrid Security – perpetual with first call date 1 October 2015 • €500 million (£411 million) Capital Hybrid Security – perpetual with first call date 1 October 2015
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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

In November 2010, SSE announced that it expects that its investment and capital expenditure will be in the range of £1.5 billion to £1.7 billion in each of the five years to March 2015. In the financial year ended 31 March 2012, its capital and investment expenditure totalled £1,706.9 million compared with £1,443.7 million in the previous year. There are four main categories in SSE's investment and capital expenditure plans to March 2015:

- economically-regulated electricity distribution expenditure plus essential maintenance of other assets;

- economically-regulated expenditure on electricity transmission upgrades;
- expenditure that is already committed to development of new assets such as wind farms; and
- expenditure that is not yet committed but which could be incurred to support the development of new assets.

Decisions on whether to proceed with individual projects are made:

- in line with SSE's financial principles;
- in the context of SSE's commitment to maintaining a diverse range of assets within its economically-regulated and market-based businesses;
- in the light of developments in public policy and regulation; and
- on the basis of the experience and skills available to SSE.

SSE believes that its pipeline of development opportunities means that it will be able to focus uncommitted funds on projects with the strongest potential to achieve returns which are in excess of its cost of capital, enhance earnings and contribute to dividend growth.

The principles, format and scale of SSE's investment and capital expenditure programme have been designed to allow SSE to maintain the development of a balanced and diverse range of assets to support sustained, above inflation dividend growth while remaining consistent with the criteria for a 'single A' credit rating without the need for SSE to issue new shares.

Generation

As at the date of this Prospectus, the composition of SSE's generation capacity is split as follows: 4,470MW gas/oil, 4,370MW coal/biomass and 3,020MW renewables.

Gas-fired

To avoid over-dependence on a single fuel, SSE operates a diverse generation portfolio and is actively developing a diverse range of options to add to it. At the same time, Combined Cycle Gas Turbine ("CCGT") technology continues to be the benchmark technology in generation, making a growing contribution to meeting the UK's electricity requirements, because of its relatively low costs, short construction time and high thermal efficiency. With a carbon intensity around half that of coal-fired power stations, investment in CCGT assists in the transition to lower-carbon electricity generation.

With more penetration of renewable generation in the UK energy system, the power stations at Peterhead, Keadby and Medway have, increasingly, been required to operate on a more flexible 'two shift' basis (the process of shutting down a power station during periods of low demand and re-starting it when demand increases). This requirement is expected to grow in the medium-term. To increase flexibility, SSE is applying modifications to support more frequent 'two shifting'. Against this background, and following the sustained period of low spark spreads (the difference between the cost of gas and the price of electricity produced from it), SSE has decided to undertake a comprehensive programme of upgrade work to support more flexible operations at its Keadby and Medway power stations from 2013 onwards. To allow this work to be carried out, SSE suspended electricity generation at those stations at the end of March 2012. The work that will be carried out follows a similar and successful programme undertaken at Peterhead power station in 2011.

Irrespective of current market circumstances, SSE believes that gas will play an increasingly important role in electricity generation, providing vital flexibility to support the increasing amount of generation from on- and offshore wind farms required to deliver renewable energy and climate change targets.

Recognising the future role for gas in a diversified generation portfolio SSE continues to develop a range of CCGT options for both the medium and long term. SSE's most advanced CCGT option, Abernedd power station in South Wales, secured its construction and operation consents in February 2011. SSE is pursuing a single CCGT unit of up to 470MW, which it considers the most economic option in the context of the site and the medium-term outlook for gas-fired generation. While an invitation to tender was issued in late 2011, an investment decision will not be taken until the second half of 2012 at the earliest and will depend, amongst other things, on the emerging shape of the electricity market following the UK Government's proposed electricity market reforms. This means that the Abernedd power station, if built, will not be operational before 2015.

SSE also has a number of what it believes are high potential CCGT development options located at existing generation sites including Keadby, Ferrybridge and Fiddler's Ferry, as well as at Seabank where SSE has recently acquired adjacent land for possible further development. These locations offer many attractive characteristics including established grid and gas connections, the availability of cooling water and land area. These and other potential sites across the UK and Ireland mean SSE believes it has a wide range of CCGT development options for independent development or co-development.

Coal and biomass

For the financial year ended 31 March 2012, SSE generated 16.8 terawatt hours (“**TWh**”) of electricity at its coal-fired power stations at Fiddler's Ferry, Ferrybridge and Uskmouth, compared with 13.6TWh in the previous year. The stations achieved 89 per cent. of their maximum availability to generate electricity, excluding planned outages, compared with 84 per cent. in the previous year.

Future operations at SSE's coal-fired power stations, and the associated investment decisions, will be determined by four main factors: the need to maintain and improve the day-to-day performance of the stations while they are operational, the prospects for the development of other solid fuels, the UK Government's final determination on proposed levels of banded support under the Renewables Obligation between 2013 and 2017 and the continuing UK Government commitment to the development of Carbon Capture and Storage (“**CCS**”) technology.

The potential of the sites of SSE's coal-fired power stations was demonstrated in April 2012 when SSE and Wheelabrator Technologies Ltd entered into the MFE joint venture to develop a new £300 million multifuel generation facility at Ferrybridge power station (see “SSE plc – Acquisitions and Investments – Ferrybridge Multifuel” above). In addition to multifuel, SSE's investment strategy for Fiddler's Ferry, Ferrybridge and Uskmouth is to continue to invest in the operation and maintenance of the three stations with a total of £60.1 million invested in the stations during the financial year ended 31 March 2012. In addition following completion of a front-end engineering design (“**FEED**”) study, SSE is investing in nitrogen oxide (“**NOx**”) emissions reduction technology for one unit of 500MW at Fiddler's Ferry to establish the feasibility of the various options for operating the Fiddler's Ferry unit up to and beyond 2023. Current EU energy policy is primarily driven by a decarbonisation agenda and will broadly require a halving of carbon emissions by the electricity sector every decade between now and 2050. SSE believes that ensuring this transition is achieved while retaining supply security and affordability will require the continued involvement of carbon-based fuels including coal and gas.

In the near term, SSE believes that coal-fired power stations still have a crucial role to play in maintaining secure supplies of electricity as they provide capacity availability, flexibility and diversity. However, in the medium-term, the use of coal to generate electricity will depend on the extent to which CCS technology can be applied to reduce carbon dioxide (“**CO₂**”) emissions.

In the longer-term, CCS technology will need to be applied as widely as possible if targets for reducing CO₂ emissions are to be met and has become a key consideration when planning the development of gas-fired generation. Consequently, the development of viable carbon capture technology is central to the UK's climate change and energy security objectives and this is reflected in the UK Government's inclusion of gas-fired generation plant in its CCS demonstration programme.

Against this background, SSE has two CCS projects under way, firstly Europe's largest post-combustion CO₂ capture trial at Ferrybridge, which came into full operation in early 2012. The project is a collaboration between SSE, Doosan Power Systems and Vattenfall and is the first of its size to be integrated into a working power plant in the UK. The plant bridges the gap between the pilot-scale trials and the commercial-scale demonstration projects envisaged by the UK Government. It captures 100 tonnes of CO₂ per day from the equivalent of 5MW of coal-fired power generating capacity. The significance of the project lies in its scale and its ability to demonstrate the operational characteristics of capture plant on an actual power station. Secondly, in April 2012, the UK Government announced a new competition for funding of commercial-scale CCS projects in the UK. SSE is working with Shell U.K. Limited to develop a gas CCS project at SSE's gas-fired power station in Peterhead. The project aims to design and develop a full chain, post-combustion CCS facility which will be capable of capturing CO₂ from one 385MW CCGT unit. It is planned that the CO₂ will then be transported to the Shell-operated Goldeneye gas field in the North Sea using, as far as possible, existing infrastructure. With works already undertaken, the Peterhead project should be in a position to begin a full FEED study in the second half of 2012 positioning it as a leading contender for the new CCS competition. The correct funding package will be necessary for the project to go ahead, and it is also being considered by the European Commission to

receive funding under the EU's New Entrant Reserve (“**NER**”) scheme to support CCS and renewable energy projects across the EU.

Wind

When SSE entered the agreement to acquire Airtricity Holdings Limited in January 2008, the combined business had just over 870MW of onshore wind farm capacity in operation, in construction or with consent for development in the UK and Ireland. This capacity now totals 2,233MW, comprising: 1,303MW in operation; 380MW in construction or pre-construction; and 550MW with consent for development. In meeting its commitment to ‘high quality’ project delivery, SSE has made significant progress in the financial year ended 31 March 2012 with the completion of its wind farms at Griffin (156MW) in Perthshire and Gordonbush (70MW) in Sutherland. Their total capital cost was £340 million and they are expected to produce approximately 640 gigawatt hours (“**GWh**”) of electricity in a typical year. At Clyde, 100 turbines with a total capacity of 230MW are producing electricity. The remaining 52 turbines, which will bring the project to its 350MW total, are expected to be completed around mid- to late 2012. The project is expected to cost around £500 million and produce over 1,000GWh of electricity in a typical year. Also during the financial year ended 31 March 2012, SSE constructed and commissioned the 27MW Slieve Kirk wind farm in Northern Ireland and the 12MW Rathcahill wind farm located in the Republic of Ireland.

In addition to its onshore capacity, SSE has offshore wind farm capacity in operation or under construction totalling almost 350MW, comprising: a 50 per cent. equity interest in the 10MW Beatrice offshore wind farm in the Moray Firth; a 25.1 per cent. share of the 367MW Walney offshore wind farm nearing completion in the Irish Sea (comprised of the Walney Offshore Windfarm 1 and the Walney Offshore Windfarm 2) and a 50 per cent. share of the 500MW Greater Gabbard Offshore Windfarm (“**GGOW**”) also nearing completion in the outer Thames Estuary.

As at 31 March 2012, all 102 turbines at Walney Offshore Windfarms 1 and 2 are now exporting electricity to the national grid with only a small number of turbines then yet to be fully commissioned.

All 140 turbines of the GGOW are in place, 62 of which have been commissioned and are not the subject of any claim and are successfully generating electricity. GGOW remains in contractual dispute with Fluor Limited, the principal contractor for the wind farm, relating to the need for assurance of the quality of up to 52 of the turbine foundations used in the early stages of development (46 of the 52 disputed turbines had also exported power as at 31 March 2012).

SSE intends to maintain an orderly phased and continuing programme of wind farm development, with the capacity of the next two offshore wind farm projects to be developed totalling 1,000MW, comprising a 50 per cent. share of the 500MW Galloper wind farm close to GGOW and a 75 per cent. share of the 1,000MW Beatrice wind farm in the Moray Firth. Throughout the financial year ended 31 March 2012, significant progress was made in the planning phases of these projects, with Galloper receiving confirmation from the Infrastructure Planning Commission that it has accepted the Development Consent Order application. Also an application for consent to develop the Beatrice offshore wind farm in the Outer Moray Firth has been submitted to the Scottish Government. Beyond this, SSE has secured, from the Crown Estate, rights for the possible development of additional offshore wind farm assets later in the decade with the total potential capacity of up to 4.8 GW (net).

Nuclear

In its 2011 Annual Report, SSE stated that: “the cost, development issues and timetable and operational efficacy of nuclear power stations all require the greatest possible scrutiny before a commitment to invest in new nuclear power stations can be made”. It was against this background that SSE announced in September 2011 its intention to dispose of its 25 per cent. stake in NuGen, the joint venture company established to develop proposals for a new nuclear power station in West Cumbria. In focusing on its strengths SSE concluded that, for the time being, its resources are better deployed on business activities and technologies where it has greater knowledge and experience. In February 2012, the sale of NuGen to NNB Development Company S.A. was concluded for an upfront cash consideration of £5.75 million, with a further contingent payment of £1.25 million dependent on progress with the development of the West Cumbria site. While SSE may become involved in nuclear again at a future date, either as an investor or as a purchaser of nuclear-generated electricity, its generation investment plans for now are focused on a diverse range of options including renewable energy, gas-fired generation, plant with carbon capture and storage and developments with solid fuel.

Retail

Customer relations

SSE has achieved an increase in the number of electricity and gas customers from 4.5 million in December 2001 to 9.55 million in March 2012.

SSE continues to be independently and consistently recognised as the customer service benchmark for the leading energy suppliers in the United Kingdom. To provide customers with the best possible value for money, SSE believes that it needs to provide excellent service, simple products and fair prices.

SSE's position as the customer service benchmark for the rest of the energy supply industry in the United Kingdom is illustrated by:

- the UK Customer Satisfaction Index, published in July 2011, in which SSE achieved the top ranking in the utility sector for the fourth consecutive year;
- the uSwitch.com Energy Customer Satisfaction Awards, announced in November 2011, in which SSE won the Overall Customer Satisfaction category for the eighth time in a row. Altogether, SSE won eight of the 11 categories;
- the J.D. Power and Associates 2011 UK Electricity and Gas Supplier Customer Satisfaction Study, in which SSE brands topped both the electricity and gas supplier rankings; and
- the energy complaints league table, published by Consumer Focus in March 2012, in which SSE achieved a five star rating with the lowest number of customer complaints to Ombudsman Services: Energy, Consumer Direct and contacts with Consumer Focus' Extra Help Unit. SSE is the only company to achieve a five star rating and has topped the league table since it began in April 2010.

Regulatory Environment

Electricity Generation

The electricity industry in the UK 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. 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 UK 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 UK is a competitive activity and is not subject to price controls.

In July 2011, the UK government issued its Energy White Paper "Planning our Electric Future". This sets out a number of reforms to the UK electricity market including the inclusion of a carbon price floor, the introduction of new long term contracts to support low carbon generation as well as a capacity mechanism to ensure resource adequacy. The Government published a draft Bill in May 2012, which will undergo pre-legislative scrutiny by the Energy and Climate Change Select Committee before being formally introduced in revised form by the end of 2012. It is expected that the Bill will become law in the latter part of 2013.

The environmental impact of the operation of large generating stations in the UK is regulated by the Environment Agency in England and Wales ("**EA**") and the Scottish Environmental Protection Agency in Scotland ("**SEPA**"). EA and SEPA were both established under the Environment Act 1995. The operation of SSE's generating plant in England and Wales and Scotland is carried out under permits issued by EA and SEPA. 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 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 (UKAS).

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 principle 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 the UK is a competitive activity and is not subject to price controls.

OFGEM is currently undertaking a 'Retail Market Review' of the supply of electricity and gas to households and small businesses. Further proposals are expected for consultation before winter 2012. OFGEM has also been investigating four energy suppliers, including SSE, to establish whether such suppliers are complying with their obligations to prevent mis-selling of energy contracts. As at the date of this prospectus, SSE expects that such investigation will not have a material adverse effect on the operations and/or financial position of the SSE Group.

Electricity Transmission

In the north of Scotland, the licensed transmission network owner is SHETL. SHETL holds a licence for the transmission of electricity.

SHETL 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. SHETL is regulated by the Authority. Under the licence, where it is reasonable to do so, SHETL is under a statutory duty to offer terms to connect any customer that requests a connection within its area and to maintain that connection. SHETL's licence may be terminated on 25 years' notice given by the Secretary of State for Trade and Industry (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.

SHETL 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 price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity transmission price control commenced on 1 April 2007. This covers the five year period until 31 March 2012. Final proposals for the "rollover" to apply from 1 April 2013 were published in November 2011.

The price control that will run from 1 April 2013 to 31 March 2021 is called 'RIIO-T1'. SHETL published its Business Plan for the RIIO-T1 period on 29 July 2011. Following consultation, OFGEM accepted SHETL's Business Plan under a "fast track" process. Final Proposals were published by OFGEM in April 2012.

Electricity distribution

SHEPD and SEPD hold licences to distribute electricity.

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 price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity distribution price control was agreed with

OFGEM in November 2009 and commenced on 1 April 2010. This covers the five year period until 31 March 2015.

The price control that will run from 1 April 2015 to 31 March 2023 is called “RIIO-ED1”. In February 2012, OFGEM published an open letter consultation on the approach to RIIO-ED1. Further consultation is expected in September 2012.

Gas distribution

Scotland Gas Networks plc and Southern Gas Networks plc (each a “**network**”, together the “**networks**”) 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 price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current gas distribution price control commenced on 1 April 2008. This covers the five year period until 31 March 2013. The next full distribution price control (RIIO-GD1) will take effect from 1 April 2013 and cover the period until 31 March 2021. The networks have published their Business Plan for the RIIO-GD1 period on 30 November 2011. Initial Proposals were published for consultation on 27 July 2012 and Final Proposals are expected in November 2012.

USE OF PROCEEDS

The net proceeds of the issue of the Securities will be used for general corporate purposes.

TAXATION

The comments below which apply only to persons who are beneficial owners of the Securities concern only certain withholding obligations and reporting requirements with respect to the Securities and are of a general nature based on current United Kingdom law and HM Revenue & Customs practice and are not intended to be exhaustive. The comments below do not deal with any other United Kingdom taxation implications of acquiring, holding, or disposing of the Securities. Any Holders or Couponholders who are in doubt as to their own tax position should consult their professional advisers.

1 Interest on the Securities

While the Securities continue to be listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities 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.

If the Securities cease to be listed interest will generally be paid by the Issuer under deduction of income tax at the basic rate unless:

- (a) when that interest is paid the Issuer reasonably believes that the person beneficially entitled to the interest:
 - (i) is a company resident in the United Kingdom;
 - (ii) is a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or
 - (iii) falls within one of various categories enjoying a special tax status (including charities and pension funds); or
 - (iv) is a partnership each member of which is a company referred to in (i), (ii) and/or (iii) above, and HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax; or
- (b) the Issuer has received a 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.

If any amount must be withheld by the Issuer on account of United Kingdom tax from payments of interest on the Securities then the Issuer will, subject to the provisions of Condition 12 of the Securities, pay such additional amounts as will result in the Holders receiving an amount equal to that which they would have received had no such withholding been required.

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

The provisions relating to additional payments referred to in Condition 12 of the Securities would not apply if HM Revenue and Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Security directly to United Kingdom income tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of the Securities which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading

and Other Income) Act 2005 to or receiving such amounts on behalf of another person who is an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on redemption of such Securities HM Revenue & Customs published practice indicates HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2013.

2 **EU Directive on the Taxation of Savings Income**

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The attention of Holders is drawn to Condition 12 of the Securities.

SUBSCRIPTION AND SALE

Barclays Bank PLC and Morgan Stanley & Co. International plc (together, the “**Joint Structuring Advisers**”) and BNP Paribas, Credit Suisse Securities (Europe) Limited, Merrill Lynch International and Bank of China Limited, London Branch (together with the Joint Structuring Advisers, the “**Managers**”) have, pursuant to a Subscription Agreement dated 14 September 2012, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Securities at 99.995 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission and to the Joint Structuring Advisers a fee in relation to the structuring advice provided to the Issuer. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment in respect of the Securities being made to the Issuer.

United States

The Securities 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 (“**Regulation S**”).

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

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) 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 Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

Japan

The Securities 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 Manager has represented and agreed, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, a resident of Japan (which term as 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, of Japan or to, or for the benefit of, any resident in 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

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Securities, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver the Securities or have in their possession or distribute such offering material, in all cases at their own expense.

Each Manager has agreed that it will, to the best of its knowledge, comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

GENERAL INFORMATION

- (1) The listing of the Securities on the Official List will be expressed as a percentage of their relevant nominal amount (exclusive of accrued interest). It is expected that listing of the Securities on the Official List and admission of the Securities to trading on the Market will be granted on or about 19 September 2012, subject only to the issue of the Temporary Global Security. 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) The issue of the Securities was authorised by resolutions of the board of directors of the Issuer passed on 15 May 2012 and 22 August 2012 and resolutions of a duly appointed committee of the board of directors of the Issuer passed on 24 August 2012 and 11 September 2012.
 - (3) There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 March 2012 and no material adverse change in the prospects of the Issuer or of the Group since 31 March 2012.
 - (4) Neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) 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 the Issuer and/or its Subsidiaries.
 - (5) Each Security and Coupon 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”.
 - (6) The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The International Securities Identification Number (“**ISIN**”) is XS0829343598 and the Common Code is 082934359.
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.
 - (7) For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified office of any of the Paying Agents:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the published annual report and audited consolidated financial statements of the Issuer for the financial years ended 31 March 2011 and 31 March 2012, respectively;
 - (c) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and
 - (d) the Trust Deed dated the Issue Date between the Issuer and the Trustee and the Paying Agency Agreement dated the Issue Date between the Issuer, the Trustee and the agents named therein.
- This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricenews/marketnews.
- (8) KPMG Audit Plc, Chartered Accountants (regulated by the Institute of Chartered Accountants of England and Wales) rendered unqualified audit reports on the consolidated financial statements of the Issuer for the financial years ended 31 March 2011 and 31 March 2012, respectively.
 - (9) For the First Reset Period, the yield on the Securities will be 5.625 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
 - (10) The expenses related to the admission of the Securities to the Official List and to trading on the Market are estimated to amount to £4,200.
 - (11) Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and/or any of its affiliates in the ordinary course of business.

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