



SSE plc

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

U.S.\$900,000,000 Capital Securities due 2077

£300,000,000 Capital Securities due 2077

Issue Price: 100 per cent. in respect of the Dollar Securities

99.855 per cent. in respect of the Sterling Securities

The U.S.\$900,000,000 Capital Securities due 2077 (the "**Dollar Securities**") and the £300,000,000 Capital Securities due 2077 (the "**Sterling Securities**") and, together with the Dollar Securities, the "**Securities**" and each, a "**Tranche**") will be issued by SSE plc (the **Issuer**) on 16 March 2017 (the "**Issue Date**"). The Dollar Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 16 September 2022 (the "**First Dollar Securities Reset Date**") at a rate of 4.750 per cent. per annum, payable semi-annually in arrear on 16 March and 16 September in each year. Thereafter, unless previously redeemed, the Dollar Securities will bear interest from (and including) the First Dollar Securities Reset Date to (but excluding) 16 September 2027 at a rate per annum which shall be 2.574 per cent. above the 5 year Swap Rate (as defined in the "**Terms and Conditions of the Dollar Securities**") (the "**Dollar Conditions**") for the relevant Reset Period (as defined in the Dollar Conditions), payable semi-annually in arrear on 16 March and 16 September in each year. From (and including) 16 September 2027 to (but excluding) 16 September 2042 the Dollar Securities will bear interest at a rate per annum which shall be 2.824 per cent. above the 5 year Swap Rate for the relevant Dollar Securities Reset Period payable semi-annually in arrear on 16 March and 16 September in each year. From (and including) 16 September 2042 up to (but excluding) 16 September 2077 (the "**Dollar Securities Maturity Date**"), the Dollar Securities will bear interest at a rate per annum which shall be 3.574 per cent. above the 5 year Swap Rate for the relevant Dollar Securities Reset Period payable semi-annually in arrear on 16 March and 16 September in each year, all as more particularly described in "**Terms and Conditions of the Dollar Securities—Interest Payments**". The Sterling Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 16 September 2022 (the "**First Sterling Securities Reset Date**") at a rate of 3.625 per cent. per annum, payable annually in arrear on 16 September in each year, except that the first payment of interest, to be made on 16 September 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 16 September 2017 and will amount to £18.27 per £1,000 in principal amount of the Sterling Securities. Thereafter, unless previously redeemed, the Sterling Securities will bear interest from (and including) the First Sterling Securities Reset Date to (but excluding) 16 September 2027 at a rate per annum which shall be the annualised equivalent of 2.750 per cent. above the 5 year Swap Rate (as defined in the "**Terms and Conditions of the Sterling Securities**") (the "**Sterling Conditions**") and, together with the Dollar Conditions, the "**Conditions**") for the relevant Sterling Securities Reset Period (as defined in the Sterling Conditions), payable annually in arrear on 16 September in each year. From (and including) 16 September 2027 to (but excluding) 16 September 2042, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.000 per cent. above the 5 year Swap Rate for the relevant Sterling Securities Reset Period payable annually in arrear on 16 September in each year. From (and including) 16 September 2042 up to (but excluding) 16 September 2077 (the "**Sterling Securities Maturity Date**"), the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.750 per cent. above the 5 year Swap Rate for the relevant Sterling Securities Reset Period payable annually in arrear on 16 September in each year, all as more particularly described in "**Terms and Conditions of the Sterling Securities—Interest Payments**". If the Issuer does not elect to redeem either Tranche of the Securities in accordance with Condition 6(g) thereof following the occurrence of a Change of Control Event (as defined in the relevant Conditions), the then prevailing interest rate per annum (and each subsequent interest rate per annum otherwise determined in accordance with the relevant Conditions) for such Tranche(s) 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 Dollar Securities—Interest Payments—Step-up after Change of Control Event**" and "**Terms and Conditions of the Sterling Securities—Interest Payments—Step-up after Change of Control Event**".

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 Dollar Securities—Optional Interest Deferral**" and "**Terms and Conditions of the Sterling Securities—Optional Interest Deferral**", respectively. 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 relevant Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the relevant Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first occurring Mandatory Settlement Date (as defined in the relevant Conditions) following the Interest Payment Date on which a Deferred Interest Payment (as defined in the relevant Conditions) arose, all as more particularly described in "**Terms and Conditions of the Dollar Securities—Optional Interest Deferral—Mandatory Settlement**" and "**Terms and Conditions of the Sterling Securities—Optional Interest Deferral—Mandatory Settlement**".

The Dollar Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding Arrears of Interest, on 16 September 2077. The Dollar Securities may not be redeemed prior to the Dollar Securities Maturity Date at the option of the Issuer other than in accordance with Condition 6. The Dollar Securities shall be redeemable (at the option of the Issuer) in whole but not in part on any date in the period commencing on 16 June 2022 to (and including) the First Dollar Securities Reset Date and on any Interest Payment Date thereafter, at the principal amount of the Dollar Securities, together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest. The Sterling Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding Arrears of Interest, on 16 September 2077. The Sterling Securities may not be redeemed prior to the Sterling Securities Maturity Date at the option of the Issuer other than in accordance with Condition 6. The Sterling Securities shall be redeemable (at the option of the Issuer) in whole but not in part on any date in the period commencing 16 June 2022 to (and including) the First Sterling Securities Reset Date and on any Interest Payment Date thereafter, at the principal amount of the Sterling 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 relevant Conditions), each Tranche 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 Dollar Securities—Redemption**" and "**Terms and Conditions of the Sterling Securities—Redemption**", respectively.

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 relevant Securities, either (i) substitute all, but not some only, of such Securities for, or (ii) vary the terms of such 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 Dollar Securities—Status**", "**Terms and Conditions of the Dollar Securities—Subordination**", "**Terms and Conditions of the Sterling Securities—Status**" and "**Terms and Conditions of the Sterling 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 Dollar Securities—Taxation**" and "**Terms and Conditions of the Sterling Securities—Taxation**", respectively.

Application has been made to the Financial Conduct Authority acting under Part VI of 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 Securities being "listed" (and all related references) shall mean that the Securities have been admitted to trading on the Market and have been admitted to the Official List. 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 of each Tranche will initially be represented by a temporary global security (each, a "**Temporary Global Security**") and, together with the Temporary Global Security in respect of the other Tranche, the "**Temporary Global Securities**"), 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 S.A. ("**Clearstream, Luxembourg**") on or about the Issue Date. Each Temporary Global Security will be exchangeable for interests in a permanent global security (each, a "**Permanent Global Security**") and, together with the Permanent Global Security in respect of the other Tranche, the "**Permanent Global Securities**", and together with the Temporary Global Securities, the "**Global Securities**", without interest coupons or talons, on or after a date which is expected to be 26 April 2017, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of (i) U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, up to and including U.S.\$399,000 in respect of the Dollar Securities and (ii) £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in "**Summary of Provisions relating to the Securities while in Global Form**". No definitive Securities will be issued with a denomination above U.S.\$399,000 in respect of the Dollar Securities and above £199,000 in respect of the Sterling Securities.

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 (the "**EU**") 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. 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.

Investing in the Securities involves a high degree of risk. Prospective investors should have regard to the factors described under the section headed "**Risk Factors**" in this Prospectus.

JOINT GLOBAL CO-ORDINATORS AND JOINT BOOKRUNNERS

BNP PARIBAS

Morgan Stanley

JOINT BOOKRUNNERS

Barclays

Lloyds Bank

RBC Capital Markets

PASSIVE BOOKRUNNERS

Credit Suisse

MUFG

National Australia Bank Limited

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC as amended (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries and affiliates 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 and belief 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 Bookrunners (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 Bookrunners to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of the 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 Bookrunners (as defined in “*Subscription and Sale*” below). 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 that there has been no adverse change in the financial position of the Issuer since the date hereof 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 Bookrunners accept no responsibility whatsoever for the contents of this Prospectus or for any other statement made or purported to be made by the Issuer or a Bookrunner or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each Bookrunner 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, as amended (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 advisers as to the tax consequences of the purchase, ownership and disposition of the Securities.

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.

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.

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

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 each Tranche, Morgan Stanley & Co. International plc (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot the relevant Securities or effect transactions with a view to supporting the market price of the relevant 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 relevant 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 relevant Securities and 60 days after the date of the allotment of the relevant 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 AND SUPPLEMENTARY PROSPECTUS

Documents incorporated by reference

The following documents, which have previously been published or are published simultaneously with this Prospectus and have been filed with the Financial Conduct Authority, shall be incorporated in, and form part of, this Prospectus:

- (i) the audited consolidated financial statements of the Issuer for the financial year ended 31 March 2015, together with the independent audit report thereon, which are included on pages 115 to 201 of the 2015 Annual Report of the Issuer, available for inspection and viewing on the website of the Issuer at the following address: http://sse.com/media/332715/SSE_AR2015_6Aug_UPDATE.pdf;
- (ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 March 2016, together with the independent audit report thereon, which are included on pages 120 to 208 of the 2016 Annual Report of the Issuer, available for inspection and viewing on the website of the Issuer at the following address: http://sse.com/media/404875/SSE_AnnualReport_2016.pdf; and
- (iii) the unaudited consolidated financial statements of the Issuer for the six months ended 30 September 2016, together with the independent review report thereon, which are included on pages 46 to 77 of the 2016/2017 Half-Year Results Statement of the Issuer, available for viewing and inspection on the website of the Issuer at the following address: <http://sse.com/media/437815/SSEInterims1617.pdf>.

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 the Issuer's website following the links above. In addition, copies of documents incorporated by reference in this Prospectus are available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Other than indicated above, neither the content of the Issuer's website, nor the content of any website accessible from hyperlinks on the Issuer's website, is incorporated into, or forms part of, this Prospectus and investors should not rely on them, without prejudice to the documents incorporated by reference into this Prospectus, which are made available on the Issuer's website.

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 Market Act 2000 ("FSMA"), the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which, in respect of the relevant Tranche, 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 Dollar Securities” or, as the case may be, in “Terms and Conditions of the Sterling Securities”. Unless otherwise indicated, references in the “Risk Factors” section to “Securities” shall be to Securities of either Tranche.

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

Industry Risk

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

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

- Risks should be consistent with SSE’s strategy, financial objectives and core values. For instance, safety is SSE’s number one value and it has no appetite for risks brought on by unsafe activities;
- Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence; and
- Risks should be actively controlled and monitored through the appropriate allocation of management and other resources. The Board has overall responsibility for determining the nature and extent of the SSE Group’s exposure to risk, as well as ensuring that risks are managed effectively across the SSE Group.

Regulatory Risk

Licensing regime

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

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

In particular, there can be no assurance that future networks' price controls will permit the generation of sufficient revenues to enable the 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 its licence may lead to the making of an enforcement order by The Office of Gas and Electricity Markets ("**OFGEM**") that could have a material adverse impact on the Issuer and/or the SSE Group.

Enforcement Framework

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

Retail Market Reforms

OFGEM's retail market reforms ("**RMR**") are now fully in force with rules in place to improve supplier communications such as bills and annual summaries. Standards of conduct have been put in place setting out obligations with which gas and electricity suppliers must comply when dealing with their customers. Despite these reforms, following a consultation on its State of the Market Assessment in June 2014, OFGEM referred the energy market to the Competition and Markets Authority ("**CMA**"). According to OFGEM, a fuller market investigation by the CMA would once and for all clear the air and allow the CMA to ensure that there are no further barriers to effective competition. Now completed, it can be noted that there is continuing interest in the state of the retail market from both government and OFGEM, though no further interventions have been proposed beyond those implemented by the CMA.

The CMA published its final report on Energy Market Reforms on 24 June 2016 setting out proposals for a substantive package for customers. In December 2016, the CMA published a number of final orders to give legal effect to the proposed remedies.

The CMA has published the following orders:

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

- The Energy Market Investigation (Database) Order 2016
- The Energy Market Investigation (Gas Tariff Codes) Undertakings 2016

OFGEM has published a high level implementation strategy detailing how it intends to take forward those remedies allocated to OFGEM for implementation. OFGEM has directed amendments to the licence conditions which will alter the retail market with simpler tariff choices rules, taking account of the CMA recommendations. This has seen the removal of a number of licence conditions from the licence, including the “four tariff cap” and the restrictions on bundling energy tariffs with other products and services. In addition, OFGEM is effecting SLC 32A which gives it the power to direct suppliers to test consumer engagement measures. SLC 32A comes into effect on 27 March 2017.

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

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

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

It will require significant resource and investment to implement the proposed remedies and suppliers will be under a considerable challenge to do so within the necessary timeframes and to customers’ satisfaction. The Smart Meter Programme, Midata, Project Nexus and the faster switching programme mean that there is an unprecedented pipeline of technological change placing real constraints on licensed suppliers’ IT systems.

Meanwhile, OFGEM is looking at introducing a new approach to regulation that will be reliant on principles, rather than prescriptive rules. This piece of work, referred to as the “Future of Retail Regulation” project, will examine the current rulebook with a view to introducing additional overarching principles whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation. Most recently, OFGEM has published its final statutory consultation on new principles governing sales and marketing, whilst at the same time removing some of the prescriptive requirements in this area. In addition, OFGEM has recently published its consultation on amending the existing Standards of Conduct, which is designed to widen the scope of the principles, and is also consulting on a new principle regarding the treatment of vulnerable customers. Further refinement to OFGEM’s approach to principles-based regulation is expected through the course of 2017/18.

Landscape for licence modification appeals

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

Political, Legal and Compliance Risks

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

In addition, under the European Union Referendum Act 2015, a referendum on the UK's membership of the EU was held on 23 June 2016. Under the referendum, the UK voted by a majority to withdraw from the EU. Such a withdrawal can however only be formally implemented by a notification to the EU under Article 50 of the Treaty on European Union (previously known as the Treaty of Maastricht). As at the date of this Prospectus, such notification has not been provided although the Supreme Court has ruled that there needs to be a parliamentary vote prior to notification. The UK Government has announced that it will give notification by 31 March 2017. The expectation is that a lengthy period of negotiation (prescribed under EU law to be a maximum of two years) between the UK and the EU on the terms and conditions of such withdrawal is due to commence after the notification. The uncertainty surrounding the implementation and effect of such withdrawal, including the commencement of the exit negotiation period, the terms and conditions of such exit, the legal and regulatory framework that would apply to the UK and its relationship with the remaining members of the EU (including, in relation to trade) during a withdrawal process and after any such withdrawal is effected, has caused and is likely to cause increased economic volatility and market uncertainty globally. Furthermore, global markets and economic conditions have been negatively impacted in recent years by the banking and sovereign debt crisis in the EU and globally. In particular, concerns have been raised with respect to continuing economic, monetary and political conditions in the region comprised of the member states of the EU that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957) as amended. The market's anticipation of these (potential) impacts (including the occurrence of the UK's withdrawal from the EU) could adversely affect the business, financial condition and liquidity of the SSE Group.

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

Plant and Network Performance

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

Commodity Price Risk, Procurement Risk and Security of Supply

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

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

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

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

Energy Affordability

The SSE Group is involved in a broad range of energy businesses in the UK and Ireland including the production, storage, transmission, distribution, supply of electricity, gas and related services. The decisions taken in operating these contribute to the overall cost of energy to the consumer, which is in turn driven by a number of factors including commodity costs, infrastructure costs and energy sector overheads. Costs can also be impacted by public policies aimed at supporting measures for the reduction of carbon emissions, while increased energy efficiency can lead to reduced consumption of energy. The SSE Group is equally committed to keeping the cost of energy as affordable as possible, both now and over the long term, as it is to delivering the standard of service required by a modern economy. As at 30 September 2016, SSE's aged debt – customer accounts that are at least six months in arrears – was £120.3 million, compared with £128.3 million as at 30 September 2015.

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

Competition and Market Risks

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

Health and Safety

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

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

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

Quality Customer Service

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

Strategic Risk

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

Financial Risks

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

Environmental Risks

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

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

Energy Volumetric Risk and Other Weather Related Risks

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

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

Infrastructure Failure

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

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

Industry and Company Transformation

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

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

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

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

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

Pension Funds Risk

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

calculate the funding levels of such schemes. This in turn may result in the SSE Group being required to make higher ongoing contributions, and/or make deficit repair payments which could be material.

Recruitment and Retention of Staff

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

Major Projects Quality

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

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

Geopolitical Risk

Russia is an important source of European gas supply, covering around 30 per cent. of European demand (including supply to the UK, the Netherlands, Germany, France, Spain, Italy and Belgium). Ukraine represents one of the major transit routes. The UK interconnection with continental Europe via BBL (the Balgzand Bacton Line) and Interconnector UK gas pipelines means that developments in the European gas market have a significant impact on gas prices in the UK. The ongoing conflict in the Ukraine creates uncertainty about the security of gas supply in Europe. Gas payment disputes arising between state-controlled companies in the Russian Federation and Ukraine also pose a key risk. Previous disputes over prices, payments and debt have led to gas supply interruptions of up to 18 days during the winters of 2005/2006, 2007/2008 and 2008/2009. Intensification of political tensions could lead to fresh disputes and to the curtailing of Russian gas supplies to Europe. This in turn would put pressure on European gas prices. As a result of the increased interconnection of gas markets, the SSE Group is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, SSE operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, SSE's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, SSE ownership and operation of a balanced portfolio of thermal, wind and hydro generation assets seeks to reduce exposure to wider market and geopolitical risks.

Risks related to the Securities generally

The Securities will be subject to optional redemption by the Issuer including upon the occurrence of certain events

The Securities of each Tranche will be redeemable, at the option of the Issuer, in whole but not in part on (i) any date during the period commencing (and including) on the date three months prior to the relevant First Reset Date to (and including) the relevant First Reset Date and (ii) any Interest Payment Date thereafter 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 Tax Event, a Substantial Repurchase Event or a Withholding Tax Event (each as defined in the relevant Conditions and as more fully described in Condition 6 of the relevant Securities), the Issuer shall have the option to redeem, in whole but not in part, the relevant 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 relevant Securities, the then prevailing Interest Rate (as defined in the relevant Conditions), and each subsequent Interest Rate otherwise determined in accordance with Condition 4 of the relevant Securities, on the relevant 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 of the relevant Securities, the Issuer may at any time, instead of giving notice to redeem the relevant Securities, substitute all, but not some only, of the relevant Securities for, or vary the terms of the relevant 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 relevant Securities, the market value of the relevant 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 relevant 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 each Tranche of Securities will reset on the relevant First Reset Date and on every relevant Reset Date thereafter, which can be expected to affect the interest payment on the relevant Securities and the market value of such Securities.

Although each Tranche of Securities will earn interest at a fixed rate until (but excluding) the relevant 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 each Tranche of Securities will be reset on the relevant First Reset Date (as set out in the relevant Conditions) and on each subsequent Reset Date, the interest payment on each Tranche of Securities will also change. Holders of each Tranche of Securities (respectively, the “**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 relevant Securities.

Holders 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.

Taxation – Interest Deductibility

As announced in the Budget on 16 March 2016 and in line with the OECD's recommendations under the Base Erosion and Profit Shifting project, new rules will apply from 1 April 2017 to restrict the deductibility for tax purposes of corporate interest expense for both third party and intra-group borrowing. Under current proposals a fixed ratio rule would restrict a group's UK tax deductions for net interest expense to 30 per cent. of its UK EBITDA. This rule would apply subject to a supplementary group ratio rule based on a net interest to EBITDA ratio for the worldwide group. Deductibility can be further restricted by a modified version of the existing debt cap rules. Based on published information as at the date of this Prospectus (including draft legislation published on 26 January 2017), it is not anticipated that the new rules will materially restrict the ability of the Issuer to claim deductions for all or part of its interest expenses, including in respect of interest payable under the terms of the Securities. However, the exact form which the new rules will take on implementation is unknown as at the date of this Prospectus and no assurance can be given as to the impact of such rules on the Issuer. If the new rules restrict the ability of the Issuer to claim deductions for all or part of its interest expenses as a result of changes made to the draft legislation after the issue date of the Securities, this may in certain circumstances give rise to a Tax Event and the Issuer may redeem all (but not some only) of the Securities as provided in Condition 6 of the relevant Securities.

Integral multiples of less than the specified denomination

The denominations of the Dollar Securities are U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, up to and including U.S.\$399,000. The denominations of the Sterling 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 U.S.\$200,000 or, as the case may be, £100,000, that are not integral multiples of U.S.\$200,000 or, as the case may be, £100,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than U.S.\$200,000 or, as the case may be, £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 U.S.\$200,000 or, as the case may be, £100,000, may be illiquid and difficult to trade.

The Issuer's obligations under the Securities are subordinated

The Issuer's obligations under the relevant 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 solely for the purposes of a reorganisation, reconstruction, amalgamation or the substitution in place of the Issuer of a "successor in business" (as defined in the relevant 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 relevant Trust Deed) and (y) do not provide that the relevant Securities shall thereby become redeemable or repayable in accordance with the relevant Conditions) 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 Dollar Securities—Status*", "*Terms and Conditions of the Dollar Securities—Subordination*", "*Terms and Conditions of the Sterling Securities—Status*" and "*Terms and Conditions of the Sterling Securities—Subordination*".

By virtue of such subordination, payments to a Holder will, in the events described in the relevant 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 prior ranking 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 or administration of the Issuer and/or may increase the likelihood of a deferral of interest payments under the Securities. 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.

Although subordinated debt securities, such as the 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 Dollar Securities—Optional Interest Deferral*” and “*Terms and Conditions of the Sterling 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 relevant Securities or on certain instruments ranking *pari passu* with the relevant 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) of the relevant Securities. Although the Issuer intends to pay all outstanding Arrears of Interest in respect of either Tranche 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 is likely to have an adverse effect on the market price of the relevant 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.

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

Limited Remedies

Payments of interest on the Securities may be deferred in accordance with Condition 5(a) of the relevant Securities and interest will not therefore be due other than in the limited circumstances described in Condition 5(b) of the relevant Securities.

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 relevant Securities and which is due.

Therefore, it will only be possible for the Holders to enforce claims for payment of principal or interest in respect of the relevant 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 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) of the relevant Securities. Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or administration 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 administration proceedings.

Modification, Waiver and Substitution

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

The relevant Conditions and the Trust Deeds in respect of the relevant Securities will also provide that the Trustee may, without the consent of the relevant Holders or Couponholders, agree to (i) any modification of the relevant Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement in respect of the relevant Securities which is in each case, 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 in respect of the relevant Securities), and any waiver or authorisation of, any breach or proposed breach by the Issuer of, any of the relevant Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement in respect of the relevant Securities which is, in the opinion of the Trustee, not materially prejudicial to the interests of the relevant Holders (which will not include, for the avoidance of doubt, any provision entitling the relevant Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11 of the relevant Securities), (iii) the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of the relevant Securities of certain other entities in place of the Issuer (or any previous Substituted Obligor (as defined in Condition 14 of the relevant Securities)) as a new principal debtor under the relevant Trust Deed and the relevant Securities, Coupons and Talons or (iv) either (a) substitute all, but not some only, of the relevant Securities for, or (b) vary the terms of the relevant Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case in accordance with Condition 7 of the relevant Securities, 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 and, where relevant, the opinion of tax advisers referred to in Condition 8 of the relevant Securities.

Change of law

The Securities will be governed by English law and, in respect of Condition 3(a) of the relevant Securities 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.

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 Dollar Securities in U.S. dollar and on the Sterling Securities in sterling. 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 U.S. dollar or, as the case may be, sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollar or, as the case may be, sterling, 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 U.S. dollar or, as the case may be, sterling, would decrease (1) the Investor's Currency equivalent yield on the relevant Securities, (2) the Investor's Currency equivalent value of the principal payable on the relevant Securities and (3) the Investor's Currency equivalent market value of the relevant 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.

OVERVIEW

The following overview refers to certain provisions of the “*Terms and Conditions of the Dollar Securities*” and the “*Terms and Conditions of the Sterling 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 Dollar Securities*” or, as the case may be, “*Terms and Conditions of the Sterling Securities*”.

Issuer	SSE plc.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent and Agent Bank	The Bank of New York Mellon, London Branch.
Issue Size	U.S.\$900,000,000 of Dollar Securities and £300,000,000 of Sterling Securities.
Issue Date	16 March 2017.
Maturity	The Dollar Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding Arrears of Interest, on 16 September 2077. The Sterling Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding Arrears of Interest, on 16 September 2077.
Interest	The Dollar Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 16 September 2022 (the “ First Dollar Securities Reset Date ”) at a rate of 4.750 per cent. per annum, payable semi-annually in arrear on 16 March and 16 September in each year. Thereafter, unless previously redeemed, the Dollar Securities will bear interest from (and including) the First Dollar Securities Reset Date to (but excluding) 16 September 2027 at a rate per annum which shall be 2.574 per cent. above the 5 year Swap Rate (as defined in the Dollar Conditions) for the relevant Dollar Securities Reset Period (as defined in the Dollar Conditions), payable semi-annually in arrear on 16 March and 16 September in each year. From (and including) 16 September 2027 to (but excluding) 16 September 2042 the Dollar Securities will bear interest at a rate per annum which shall be 2.824 per cent. above the 5 year Swap Rate for the relevant Dollar Securities Reset Period payable semi-annually in arrear on 16 March and 16 September in each year. From (and including) 16 September 2042 up to (but excluding) 16 September 2077, the Dollar Securities will bear interest at a rate per annum which shall be 3.574 per cent. above the 5 year Swap Rate for the relevant Dollar Securities Reset Period payable semi-annually in arrear on 16 March and 16 September in each year, all as more particularly described in “ <i>Terms and Conditions of the Dollar Securities—Interest</i> ”

Payments".

The Sterling Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 16 September 2022 (the "**First Sterling Securities Reset Date**") at a rate of 3.625 per cent. per annum, payable annually in arrear on 16 September in each year, except that the first payment of interest, to be made on 16 September 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 16 September 2017 and will amount to £18.27 per £1,000 in principal amount of the Sterling Securities. Thereafter, unless previously redeemed, the Sterling Securities will bear interest from (and including) the First Sterling Securities Reset Date to (but excluding) 16 September 2027 at a rate per annum which shall be the annualised equivalent of 2.750 per cent. above the 5 year Swap Rate (as defined in the Sterling Conditions) for the relevant Sterling Securities Reset Period (as defined in the Sterling Conditions), payable annually in arrear on 16 September in each year. From (and including) 16 September 2027 to (but excluding) 16 September 2042, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.000 per cent. above the 5 year Swap Rate for the relevant Sterling Securities Reset Period payable annually in arrear on 16 September in each year. From (and including) 16 September 2042 up to but excluding 16 September 2077, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.750 per cent. above the 5 year Swap Rate for the relevant Sterling Securities Reset Period payable annually in arrear on 16 September in each year, all as more particularly described in "*Terms and Conditions of the Sterling Securities—Interest Payments*".

Issue Price

100 per cent. in respect of the Dollar Securities.

99.855 per cent. in respect of the Sterling Securities.

Status

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* 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 solely for the purposes of a reorganisation, reconstruction, amalgamation or the substitution in place of the Issuer of a "successor in business" (as defined in the relevant 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 relevant Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with the relevant Conditions) 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 administration 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 administration 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, the Trustee and the Principal Paying Agent. 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 in respect of either Tranche 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 relevant Holders, the Trustee and the Principal Paying Agent 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) of the relevant Securities, 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 relevant Securities or for any other purpose, unless such payment is required in accordance with Condition 5(b) of the relevant Securities.

Mandatory Settlement

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 a Deferred Interest Payment first arose.

If, in respect of a Tranche, 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 in respect of such Tranche.

Optional Redemption

The Issuer may redeem all, but not some only, of either Tranche of Securities on any date in the period commencing on the date three months prior to the relevant First Reset Date to (and including) the relevant First Reset Date and on any Interest Payment Date thereafter 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 respect of the relevant Tranche.

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 either Tranche of 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 relevant 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 relevant 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 in respect of the relevant Tranche.

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 either

Tranche 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 in respect of the relevant Tranche.

If the Issuer does not elect to redeem either Tranche of the Securities following the occurrence of a Change of Control Event, the then prevailing Interest Rate, and each subsequent Interest Rate, on the relevant 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. See “*Terms and Conditions of the Dollar Securities—Interest Payments—Step-up after Change of Control Event*” and “*Terms and Conditions of the Sterling Securities—Interest Payments—Step-up after Change of Control Event*”, respectively.

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, without the consent of the Holders of the relevant Tranche the Issuer may either (i) substitute all, but not some only, of the relevant Securities for, or (ii) vary the terms of the relevant 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 and, where relevant, the opinion of tax advisers referred to in Condition 8 thereof.

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, in each case in respect of any Tranche and which is due, then the Issuer shall without notice from the Trustee be deemed to be in default under the relevant Trust Deed, the relevant Securities and the relevant Coupons and the Trustee at its sole discretion may, or shall, if so requested by an Extraordinary Resolution of the relevant Holders or in writing by the Holders of at least one-quarter in principal amount of such relevant Securities then outstanding, 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 such 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 in respect of the relevant Tranche.

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 Dollar Securities—Taxation*” and “*Terms and Conditions of the Sterling Securities—Taxation*”.

Replacement Intention

Unless (a) 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 of the view that such rating would not fall below this level as a result of such redemption or repurchase; or (b) the Securities are not assigned an “equity credit” (or such similar nomenclature then used by Standard & Poor’s), at the time of such redemption or repurchase; or (c) in the case of a repurchase, such repurchase is in an amount necessary to allow the Issuer’s aggregate principal amount of hybrid capital remaining outstanding after such repurchase to remain below the maximum aggregate principal amount of hybrid capital to which Standard & Poor’s would assign equity content under its prevailing methodology, the Issuer intends (without thereby assuming a legal obligation), during the period from and including the issue date of the relevant Securities to but excluding the Reset Date falling on 16 September 2042 in respect of the Dollar Securities and 16 September 2042 in respect of the Sterling Securities, in the event of:

- (i) an early redemption of the relevant Securities pursuant to Condition 6(b) thereof, or
- (ii) a repurchase of the relevant Securities of more than (a) 10 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 10 consecutive years,

to 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 each Tranche will initially be represented by a Temporary Global Security, without interest coupons or talons, which will be deposited with a common depository on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Each 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 26 April 2017, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of (i) U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, up to and including U.S.\$399,000 in respect of the Dollar Securities and (ii) £100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in "*Summary of Provisions relating to the Securities while in Global Form*". No definitive Securities will be issued with a denomination above U.S.\$199,000 in respect of the Dollar Securities and above £199,000 in respect of the Sterling Securities.

Denominations

U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, up to and including U.S.\$399,000 in respect of the Dollar Securities.

£100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000 in respect of the Sterling Securities.

Listing and Admission to Trading

Application has been 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, Japan and the Republic of Italy. See “ <i>Subscription and Sale</i> ”. Category 2 offering restrictions have been implemented for the purposes of Regulation S under the Securities Act.
Risk Factors	Prospective investors should carefully consider the information set out in “ <i>Risk Factors</i> ” in conjunction with the other information contained or incorporated by reference in this Prospectus.
ISIN	XS1572343744 in respect of the Dollar Securities. XS1572349865 in respect of the Sterling Securities.
Common Code	157234374 in respect of the Dollar Securities. 157234986 in respect of the Sterling Securities.

TERMS AND CONDITIONS OF THE DOLLAR SECURITIES

The following, 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 U.S.\$900,000,000 Capital Securities due 16 September 2077 (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 (the **Board of Directors**) passed on 8 November 2016. The Securities are constituted by a trust deed (the **Trust Deed**) dated 16 March 2017 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 16 March 2017 relating to the Securities between the Issuer, The Bank of New York Mellon, London Branch as the initial principal paying agent and agent bank (the **Principal Paying Agent** and the **Agent Bank**, respectively, which expressions 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) 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 U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof, up to and including U.S.\$399,000, each with Coupons and one Talon attached on issue. No definitive Securities will be issued with a denomination above U.S.\$399,000. 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, 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 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.

Nothing in this Condition 3(a) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the Agents or the rights and remedies of the Trustee or the Agents in respect thereof.

Accordingly, and without prejudice to the rights of the Trustee or the Agents, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or administration 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 administration. 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) 16 March 2017 (the *Issue Date*) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities semi-annually in arrear on each Interest Payment Date as provided in this Condition 4.

(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 Interest Period, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Where it is necessary to calculate an amount of interest in respect of any Security for a period of more than one Interest Period, such interest shall be the aggregate of the interest payable in respect of a full Interest Period 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 U.S.\$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 the day count fraction as described in this Condition 4(b) 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 4.750 per cent. per annum (the **First Fixed Interest Rate**), payable semi-annually in arrear in equal instalments of U.S.\$23.75 per Calculation Amount on the Interest Payment Dates in each year.

(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 semi-annually in arrear on the Interest Payment Dates in each year and shall be calculated, subject to Condition 4(i) below, as follows:

Subsequent Fixed Interest Rate = 5 year Swap Rate + Margin

all as determined by the Agent Bank and where:

5 year Swap Rate means the semi-annual mid-swap rate as displayed on Reuters screen "ICE SWAP 3" as at 11:00 a.m. (London 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**);

If 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. (London 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 semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. dollar 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 3-month LIBOR rate (calculated on an Actual/360 day count basis); and

Margin means in respect of (i) the Reset Period ending on (but excluding) 16 September 2027, 2.574 per cent.; (ii) each Reset Period which falls in the period commencing on (and including) 16 September 2027 and ending on (but excluding) 16 September 2042, 2.824 per cent.; and (iii) each Reset Period which falls on or after 16 September 2042, 3.574 per cent.

If on any Reset Interest Determination Date only one or none of the Reset Reference Banks provides the Agent Bank with 5 year Swap Rate Quotations as provided in the foregoing provisions of this paragraph, the Subsequent Fixed Interest Rate shall be determined as set out in the formula above but the 5 year Swap Rate shall be the 5 year Swap Rate as at the last preceding Reset Date or, in the case of the first Reset Interest Determination Date, 2.176 per cent. and the Margin shall be the Margin in respect of the relevant Reset Period.

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.

For the purposes of this Condition 4(d), the Agent Bank shall not be responsible to the Issuer or to any third party as a result of the Agent Bank having relied upon or acted on any quotation or information given to it for the purposes of calculating the Subsequent Fixed Interest Rate or the Reset Reference Bank Rate which subsequently may be found to be incorrect or inaccurate in any way or for any losses whatsoever resulting from acting in accordance therewith.

(e) Determination of Subsequent Fixed Interest Rates

The Agent Bank will, as soon as practicable after 11.00 a.m. (London 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 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, manifest error or negligence) 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 Event***

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) ***Final Redemption***

Unless previously redeemed or purchased and cancelled or (pursuant to Condition 7) substituted, the Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding

Arrears of Interest, on 16 September 2077. The Securities may not be redeemed at the option of the Issuer other than in accordance with 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 (i) any date during the period commencing (and including) 16 June 2022 to (and including) the First Reset Date and (ii) any Interest Payment Date thereafter 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.

(c) Redemption for Certain 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 Event

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 (each a **Substitution or Variation 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 and, where relevant, the opinion of tax advisers, each 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 agrees, at the expense of the Issuer, to 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 or expose it to liabilities or reduce its protections. 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 following a Substitution or Variation Event shall only be permitted if it does not give rise to any other Substitution or Variation Event with respect to the Qualifying Securities.

Any such substitution or variation in accordance with the foregoing provisions following a Substitution or Variation Event shall only be permitted if it does not result in the Qualifying Securities no longer being 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 is attributed to the Securities on the date notice is given to Holders of the substitution or variation.

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 (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 principal and 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; and
 - (v) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; 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 Conduct Authority acting under Part VI of 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 in form and substance satisfactory to the Trustee 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 requires measures reasonably available to the Issuer to be taken, the relevant Special 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 and in the case of a substitution, variation or redemption due to a Tax Event, the opinion of tax advisers referred to in the definition of "Excluded Change", if so required by these

Conditions, shall also be delivered to the Trustee and addressed to the Trustee and the Issuer. The Trustee may rely absolutely upon and shall be entitled to accept such directors' certificate and, where relevant, opinion 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 or any of its Subsidiaries, shall not entitle the Holder to vote at any meetings of the Holders or otherwise exercise any voting rights and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for voting on any Extraordinary Resolution 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 U.S. dollar account maintained by the payee with a bank in New York.
- (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, where relevant, 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 U.S. dollar account, on 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 take 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, institute, prove or claim, 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.

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.

Notwithstanding anything to the contrary contained herein, the Issuer shall be entitled to withhold and deduct any amounts required to be deducted or withheld in respect of payment of principal and/or interest made by it in respect of the Securities and the Coupons pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) (any such withholding or deduction, a **FATCA**

Withholding), and the Issuer shall not be required to pay any additional amounts in respect of FATCA Withholding.

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 (subject to Condition 10(a)(ii)) 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, 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, including provisions relieving it from taking any actions or steps or instituting any proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. 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; and
- (b) whenever a function expressed in these Conditions to be performed by the Agent Bank or by the Reset 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, Reset Reference Banks.

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 which becomes effective on or after 16 March 2017, but not otherwise, the obligations of the Issuer under the Securities must not or may no longer be recorded as a “financial liability” 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;

Additional Amounts has the meaning given to it in Condition 12;

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

Agents means the Principal Paying Agent, the Agent Bank and the Paying Agents or any of them;

Arrears of Interest has the meaning given to it in Condition 5(a);

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 New York;

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 which becomes effective on or after 16 March 2017 (or, if later, effective after the date on which the Securities are assigned “equity credit” by a Rating Agency for the first time) and as a result of which, but not otherwise, 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 (or if “equity credit” is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which “equity credit” is assigned by such Rating Agency for the first time);

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) or more; 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 ranks, or is 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 redeemed, 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 ranks, or is 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 Subsidiary 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 Subsidiary 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);

Excluded Change means the taking effect or enactment of legislation which limits by reference to a specified measure of earnings the tax relief that companies can claim for their UK interest expenses, except in circumstances where, in the opinion of independent tax advisers of international repute appointed by the Issuer, the disallowance referred to in paragraph (i) of the definition of "Tax Event" results from the legislation being enacted in a form which is not identical in all material respects to Schedule 1 of the draft Finance Bill 2017 published on 26 January 2017;

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

First Reset Date means 16 September 2022;

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

IFRS means International Financial Reporting Standards as adopted by the EU;

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

Interest Payment Date means 16 March and 16 September in each year, commencing on (and including) 16 September 2017;

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 3, 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 or such preference shares;

For the avoidance of doubt, Parity Obligations include the Issuer's £750,000,000 Capital Securities (ISIN: XS1196714429), the Issuer's U.S.\$700,000,000 Capital Securities (ISIN XS0829351690), the Issuer's €750,000,000 Capital Securities (ISIN XS0829343598), the Issuer's €600,000,000 Capital Securities (ISIN: XS1196713298) and the Issuer's £300,000,000 Capital Securities due 2077 (ISIN: XS1572349865);

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;

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 (but excluding) the next following Reset Date;

Reset Reference Banks means five major banks in the interbank market in London 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

80 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);

Substitution or Variation Event has the meaning given to it in Condition 7;

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

a **Tax Event** shall be deemed to have occurred if as a result of a Tax Law Change (other than, in the case of paragraph (i) below, as a result of an Excluded Change):

- (i) in respect of, or as a result 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 computing its taxation liabilities in the United Kingdom or such entitlement is materially reduced or materially delayed (a *disallowance*);
- (ii) the Securities are prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, where a deduction arises in respect of such Interest Payment 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 16 March 2017 or any similar system or systems having like effect as may from time to time exist) otherwise than as a result of a disallowance within (i),

and, in each case, the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it, provided measures reasonably available to the Issuer shall not include allocating a disallowance provided for in (i) above to any other company or security;

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 16 March 2017;

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;

U.S. Dollar, U.S.\$ or cent means the lawful currency of the United States of America; 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 (a) 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 of the view that such rating would not fall below this level as a result of such redemption or repurchase; or (b) the Securities are not assigned an "equity credit" (or such similar nomenclature then used by Standard & Poor's), at the time of such redemption or repurchase; or (c) in the case of a repurchase, such repurchase is in an amount necessary to allow the Issuer's aggregate principal amount of hybrid capital remaining outstanding after such repurchase to remain below the maximum aggregate

principal amount of hybrid capital to which Standard & Poor's would assign equity content under its prevailing methodology, 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 16 September 2042, in the event of:

- (i) an early redemption of the Securities pursuant to Condition 6(b), or*
- (ii) a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 10 consecutive years,*

to 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.

TERMS AND CONDITIONS OF THE STERLING SECURITIES

The following, 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 £300,000,000 Capital Securities due 16 September 2077 (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 (the *Board of Directors*) passed on 8 November 2016. The Securities are constituted by a trust deed (the *Trust Deed*) dated 16 March 2017 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 16 March 2017 relating to the Securities between the Issuer, The Bank of New York Mellon, London Branch as the initial principal paying agent and agent bank (the *Principal Paying Agent* and the *Agent Bank*, respectively, which expressions 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) 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, 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 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.

Nothing in this Condition 3(a) shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Trustee or the Agents or the rights and remedies of the Trustee or the Agents in respect thereof.

Accordingly, and without prejudice to the rights of the Trustee or the Agents, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or administration 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 administration. 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) 16 March 2017 (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 16 September 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 16 September 2017.

(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 the day count fraction as described in this Condition 4(b) for the relevant period, rounding the resulting figure to the nearest penny (half a penny 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 3.625 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 16 September 2017, will be in respect of the period from (and including) the Issue Date to (but excluding) 16 September 2017 and will amount to £18.27 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, subject to Condition 4(i) below, as follows:

$$\text{"Subsequent Fixed Interest Rate"} = \left(1 + \frac{(\text{5 year Swap Rate}) + \text{Margin}}{2} \right)^2 - 1$$

all as determined by the Agent Bank and where:

5 year Swap Rate means the semi-annual mid-swap rate as displayed on Reuters screen "ICE SWAP 4" as at 11:00 a.m. (London time) (the **Reset Screen Page**) on the first Business Day of the relevant Reset Period (the **Reset Interest Determination Date**);

If 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. (London 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 semi-annual fixed leg (calculated on an Actual/365 day count basis) of a fixed-for-floating sterling 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 LIBOR rate (calculated on an Actual/365 day count basis); and

Margin means in respect of (i) the Reset Period ending on (but excluding) 16 September 2027, 2.750 per cent.; (ii) each Reset Period which falls in the period commencing on (and including) 16 September 2027 and ending on (but excluding) 16 September 2042, 3.000 per cent.; and (iii) each Reset Period which falls on or after 16 September 2042, 3.750 per cent.

If on any Reset Interest Determination Date only one or none of the Reset Reference Banks provides the Agent Bank with 5 year Swap Rate Quotations as provided in the foregoing provisions of this paragraph, the Subsequent Fixed Interest Rate shall be determined as set out in the formula above but the 5 year Swap Rate shall be the 5 year Swap Rate as at the last preceding Reset Date or, in the case of the first Reset Interest Determination Date, 0.875 per cent. and the Margin shall be the Margin in respect of the relevant Reset Period.

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.

For the purposes of this Condition 4(d), the Agent Bank shall not be responsible to the Issuer or to any third party as a result of the Agent Bank having relied upon or acted on any quotation or information given to it for the purposes of calculating the Subsequent Fixed Interest Rate or the Reset Reference Bank Rate which subsequently may be found to be incorrect or inaccurate in any way or for any losses whatsoever resulting from acting in accordance therewith.

(e) Determination of Subsequent Fixed Interest Rates

The Agent Bank will, as soon as practicable after 11.00 a.m. (London 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 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, manifest error or negligence) 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 Event

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) Final Redemption

Unless previously redeemed or purchased and cancelled or (pursuant to Condition 7) substituted, the Securities will be redeemed at their principal amount, together with any accrued and unpaid interest and any outstanding Arrears of Interest, on 16 September 2077. The Securities may not be redeemed at the option of the Issuer other than in accordance with 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 (i) any date during the period commencing (and including) 16 June 2022 to (and including) the First Reset Date and (ii) any Interest Payment Date thereafter 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.

(c) Redemption for Certain 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 Event

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 (each a **Substitution or Variation 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 and, where relevant, the opinion of tax advisers, each 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 agrees, at the expense of the Issuer, to 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 or expose it to liabilities or reduce its protections. 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 following a Substitution or Variation Event shall only be permitted if it does not give rise to any other Substitution or Variation Event with respect to the Qualifying Securities.

Any such substitution or variation in accordance with the foregoing provisions following a Substitution or Variation Event shall only be permitted if it does not result in the Qualifying Securities no longer being 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 is attributed to the Securities on the date notice is given to Holders of the substitution or variation.

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 (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 principal and 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; and
 - (v) do not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; 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 Conduct Authority acting under Part VI of 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 in form and substance satisfactory to the Trustee 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 requires measures reasonably available to the Issuer to be taken, the relevant Special 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 and in the case of a substitution, variation or redemption due to a Tax Event, the opinion of tax advisers referred to in the definition of “Excluded Change”, if so required by these Conditions, shall also be delivered to the Trustee and addressed to the Trustee and the Issuer. The Trustee may rely absolutely upon and shall be entitled to accept such directors’ certificate and, where relevant, opinion 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 or any of its Subsidiaries, shall not entitle the Holder to vote at any meetings of the Holders or otherwise exercise any voting rights and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for voting on any Extraordinary Resolution 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 sterling account maintained by the payee with a bank in London.
- (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, where relevant, 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 sterling account, in London). 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 take 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, institute, prove or claim, 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.

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.

Notwithstanding anything to the contrary contained herein, the Issuer shall be entitled to withhold and deduct any amounts required to be deducted or withheld in respect of payment of principal and/or interest made by it in respect of the Securities and the Coupons pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the *Code*) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) (any such withholding or deduction, a *FATCA Withholding*), and the Issuer shall not be required to pay any additional amounts in respect of FATCA Withholding.

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 (subject to Condition 10(a)(ii)) 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, 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, including provisions relieving it from taking any actions or steps or instituting any proceedings unless indemnified and/or secured and/or prefunded to its satisfaction. 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; and
- (b) whenever a function expressed in these Conditions to be performed by the Agent Bank or by the Reset 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, Reset Reference Banks.

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 which becomes effective on or after 16 March 2017, but not otherwise, the obligations of the Issuer under the Securities must not or may no longer be recorded as a “financial liability” 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;

Additional Amounts has the meaning given to it in Condition 12;

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

Agents means the Principal Paying Agent, the Agent Bank and the Paying Agents or any of them;

Arrears of Interest has the meaning given to it in Condition 5(a);

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;

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 which becomes effective on or after 16 March 2017 (or, if later, effective after the date on which the Securities are assigned “equity credit” by a Rating Agency for the first time) and as a result of which, but not otherwise, 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 (or if “equity credit” is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which “equity credit” is assigned by such Rating Agency for the first time);

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) or more; 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 ranks, or is 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 redeemed, 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 ranks, or is 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 Subsidiary 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 Subsidiary 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);

Excluded Change means the taking effect or enactment of legislation which limits by reference to a specified measure of earnings the tax relief that companies can claim for their UK interest expenses, except in circumstances where, in the opinion of independent tax advisers of international repute appointed by the Issuer, the disallowance referred to in paragraph (i) of the definition of "Tax Event" results from the legislation being enacted in a form which is not identical in all material respects to Schedule 1 of the draft Finance Bill 2017 published on 26 January 2017;

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

First Reset Date means 16 September 2022;

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

IFRS means International Financial Reporting Standards as adopted by the EU;

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

Interest Payment Date means 16 September in each year, commencing on (and including) 16 September 2017;

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 3, 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 or such preference shares;

For the avoidance of doubt, Parity Obligations include the Issuer's £750,000,000 Capital Securities (ISIN: XS1196714429), the Issuer's U.S.\$700,000,000 Capital Securities (ISIN XS0829351690), the Issuer's €750,000,000 Capital Securities (ISIN XS0829343598), the Issuer's €600,000,000 Capital Securities (ISIN: XS1196713298 and the Issuer's U.S.\$900,000,000 Capital Securities due 2077 (ISIN: XS1572343744));

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;

pounds sterling, penny or sterling means the lawful currency of the United Kingdom;

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;

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 (but excluding) the next following Reset Date;

Reset Reference Banks means five major banks in the interbank market in London 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 80 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);

Substitution or Variation Event has the meaning given to it in Condition 7;

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

a **Tax Event** shall be deemed to have occurred if as a result of a Tax Law Change (other than, in the case of paragraph (i) below, as a result of an Excluded Change):

- (i) in respect of, or as a result 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 computing its taxation liabilities in the United Kingdom or such entitlement is materially reduced or materially delayed (a *disallowance*);
- (ii) the Securities are prevented from being treated as loan relationships for United Kingdom tax purposes; or
- (iii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, where a deduction arises in respect of such Interest Payment 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 16 March 2017 or any similar system or systems having like effect as may from time to time exist) otherwise than as a result of a disallowance within (i),

and, in each case, the Issuer cannot avoid the foregoing in connection with the Securities by taking measures reasonably available to it, provided measures reasonably available to the Issuer shall not include allocating a disallowance provided for in (i) above to any other company or security;

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 16 March 2017;

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 (a) 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 of the view that such rating would not fall below this level as a result of such redemption or repurchase; or (b) the Securities are not assigned an "equity credit" (or such similar nomenclature then used by Standard & Poor's), at the time of such redemption or repurchase; or (c) in the case of a repurchase, such repurchase is in an amount necessary to allow the Issuer's aggregate principal amount of hybrid capital remaining outstanding after such repurchase to remain below the maximum aggregate principal amount of hybrid capital to which Standard & Poor's would assign equity content under its prevailing methodology, 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 16 September 2042, in the event of:

- (i) *an early redemption of the Securities pursuant to Condition 6(b), or*
- (ii) *a repurchase of the Securities of more than (a) 10 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the relevant Securities originally issued in any period of 10 consecutive years,*

to 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.

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

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

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 26 April 2017, 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 (as defined below) 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 relevant 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.

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. 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 commercial banks and foreign exchange markets are open in London and (for the Dollar Securities only) a day on which commercial banks and foreign exchange markets are open in London and, in the case of the Dollar Securities, New York.

Notices

Notwithstanding Condition 17 (*Notices*), so long as the Securities are represented by the Permanent Global Security and such 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.

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).

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 U.S.\$1,000 in principal amount of the Dollar Securities or, as the case may be, £1,000 in principal amount of the Sterling Securities.

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 relevant Global Security.

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.

Electronic Consent

While any Global Security is held on behalf of a relevant clearing system, then:

- (a) approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding (an **Electronic Consent**, as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum (as defined in the Trust Deed) was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Holders duly convened and held, and shall be binding on all Holders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and
- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, the Issuer and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, (a) by accountholders in the clearing system(s) with entitlements to such Global Security and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the

relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Holders and holders of Coupons and Talons, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Securities is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

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 30 September 2011 (SSE and its subsidiaries being the “SSE Group”). SSE is the broadest energy based company in the UK, being the only company operating in the generation, transmission, distribution and supply of energy. It has a market capitalisation of £15.1 billion and was the 30th largest company in the FTSE 100 as at 31 January 2017.

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

Board of Directors of SSE

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

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

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

- **Richard Gillingwater CBE** is Chairman of Henderson Group plc and Senior Independent Director of Helical Bar plc.
- **Alistair Phillips-Davies** is a Director of Energy UK, member of the Accenture Global Energy Board and Vice President of Eurelectric.
- **Gregor Alexander** is Chairman of Scotia Gas Networks Ltd and a non-Executive Director of Stagecoach Group plc.
- **Crawford Gillies** is Chairman of Control Risks Group, non-Executive Director of Barclays Bank PLC and Senior Independent director of Standard Life plc. Crawford is also a member of Advisory Board of School for CEO’s.
- **Jeremy Beeton** is a member of the Court of Strathclyde University and a member of the Advisory Board of PwC. He is also Chairman of Merseylink Ltd. and a non-Executive Director of John Laing Group plc and WYG plc.
- **Katie Bickerstaffe** is Chief Executive of UK and Ireland Dixons Carphone plc.

- **Peter Lynas** is Group Finance Director of BAE Systems plc and member of the BAE Systems Inc. Board in the US.
- **Dame Susan Bruce DBE** is Chair of the Royal Scottish National Orchestra, Chair of Young Scot and Deputy Chair of the Scottish Council for Development and Industry and also Visiting Professor of The International Institute of Public Policy, University of Strathclyde. Sue also has her own consultancy company.
- **Helen Mahy CBE** is Chairman of the Renewables Infrastructure Group and a non-Executive Director of Bonheur ASA and of SVG Capital 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 Disposals

Gas Assets Acquisition

In July 2015 SSE through its wholly-owned subsidiary SSE E&P UK Limited, entered into an agreement with Total E&P UK Limited to acquire a 20 per cent. interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area; and a 20 per cent. interest in the new Shetland Gas Plant.

The acquisition was completed in October 2015. Total E&P UK Limited is the operator of, and will own a 60 per cent. stake in, these assets. The remaining 20 per cent. is owned by DONG Energy.

The transaction completed with cash consideration of £669 million (which reflects the value of the assets including associated UK capital allowances). SSE's share of forecast capital expenditure is expected to be around £190 million in the period to March 2019 to complete the entire development of the four primary fields (Laggan, Tormore, Edradour and Glenlivet) as well as the Shetland Gas Plant, of which £43 million was spent to 31 March 2016.

Sale of stake in Beatrice Offshore Windfarm Ltd ("BOWL") and project financing

In January 2016 SSE sold a 10 per cent. stake in the 588MW BOWL project, situated in the outer Moray Firth to joint venture partner Copenhagen Infrastructure Partners ("CIP"), reducing SSE's holding to 40 per cent. On 20 May 2016 the £2.6 billion BOWL project was given the green light for construction by owners SSE (40 per cent.), CIP (35 per cent.) and SDIC Power (25 per cent.) after the project reached financial close. Work at the operations and maintenance facility in Wick and the transmission works in Moray commenced in 2016, with offshore construction commencing in 2017. The wind farm is expected to become fully operational by 2019.

Sale of a stake in Clyde wind farm

In March 2016 SSE signed agreements for the sale of 49.9 per cent. of its operational 349.6MW Clyde Wind Farm located in South Lanarkshire to Greencoat UK Wind Plc ("UKW") and GMPF & LPFA Infrastructure LLP ("GLIL") for a headline consideration of £355 million.

When the 172.8MW extension to Clyde is commissioned (currently under construction, expected to be fully operational in 2017) the equity stake jointly owned by UKW and GLIL will be diluted to 30 per cent. with SSE retaining 70 per cent. In addition to completing the construction of the extension, SSE will provide long term management services for the day to day operations of all 522.4MW as well as long term route to market PPA's.

Disposal of Street Lighting Project

In July 2016, SSE signed a sale and purchase agreement with DIF Infrastructure IV to dispose of the equity interest in its three remaining UK PFI street lighting special purpose entities ("SPEs").

The SPEs in Leeds, Stoke on Trent and Newcastle and North Tyneside are funded through a mix of senior debt and equity. The sale of SSE’s equity interest would have reduced SSE’s net debt at 31 March 2016 by around £138 million through the removal of project-related senior debt together with the cash consideration, although the exact amounts will not be finalised until completion of the sale of each of the SPEs due to their continued operation and trade.

It is expected that the disposal will be completed later in financial year 2016/17 following agreement with the relevant local authorities, the joint venture partner Royal Bank Leasing Limited and senior debt funders.

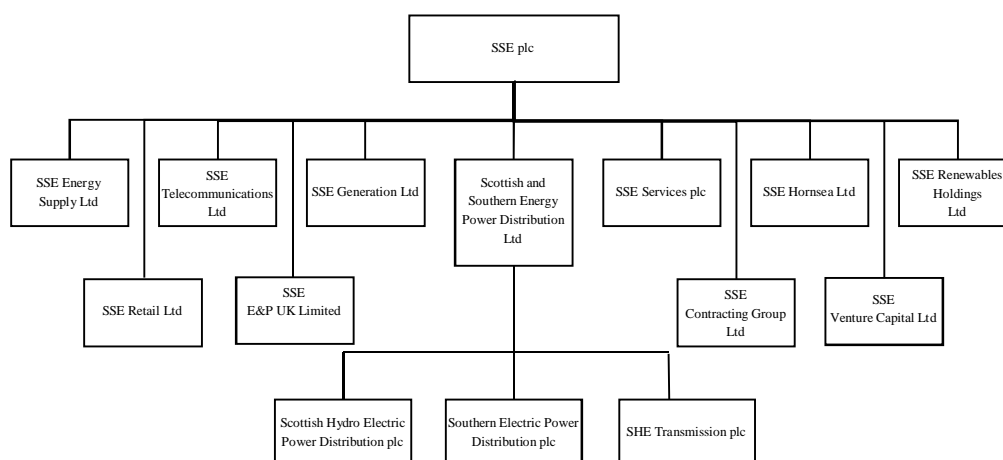
The street lighting SPE projects have 25 year agreements for the replacement, operation and maintenance of the street lighting assets with their respective local authorities and these operational responsibilities will continue to be carried out by SSE Contracting Limited under a parallel 25 year sub-contract with the SPEs.

Sale of a stake in SGN Ltd

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

The SSE Group

SSE Group — Principal Subsidiaries as at 31 January 2017



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

significant experience and an understanding of the markets in which it operates and to focus on the needs of the customers which it serves.

Adjusted operating profit¹ of the SSE Group has grown at a compound annual growth rate² of 2 per cent. since its results for the year ended 31 March 2011 through to its results for the year ended 31 March 2016³. In the year ended 31 March 2016 based on customer numbers SSE estimates that approximately 45-50 per cent. of adjusted operating profit was attributable to its activities in each of Scotland and the rest of the United Kingdom, with the remaining 1-5 per cent. in the Republic of Ireland.⁴

Networks

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

The adjusted operating profit for Networks was £927 million for the financial year ended 31 March 2016, which was 51 per cent. of the Group’s adjusted operating profit. SSE estimates that the total Regulated Asset Value (“RAV”) of its economically-regulated ‘natural monopoly’ business was £8,286 million as at 30 September 2016, up £329 million from £7,957 million at 31 March 2016. As at 30 September 2016, the RAV comprised around: (i) £2,522 million for electricity transmission; (ii) £3,209 million for electricity distribution; and (iii) £2,555 million for gas distribution (i.e. 50.0 per cent. of Scotland Gas Network plc and Southern Gas Network plc’s total RAV), compared with the RAV as at 30 March 2016 which comprised around: (i) £2,287 million for electricity transmission; (ii) £3,157 million for electricity distribution; and (iii) £2,513 million for gas distribution. In October 2016, following the completion of the disposal of a 16.7 per cent equity stake in SGN, total RAV for gas distribution fell from £2,555 million to £1,702 million. The RAV growth was £607 million in 2015/16, compared with £530 million in 2014/15 and SSE’s projected RAV is expected to fall by around £250 million (net) in 2016/17 due to the sale of the stake in SGN, then expected to grow by around £550 million for 2017/18, £360 million for 2018/19 and £260 million for 2019/20 based on projected capital expenditure, where historically around 50 per cent. has been spent on Networks. The completion of the Caithness Moray link and other projects is expected to take the total RAV of all SSE’s economically-regulated networks businesses to close to £9.0 billion by 2020.

Through price controls, OFGEM sets the index-linked revenue the network companies can earn through charges levied on users to cover costs and earn a return on regulated assets. While the RIIO Price Control mechanism is complex, these economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the competitive Wholesale and Retail markets. While the overall shape of the

¹ For more information on the relevance of adjusted operating profit (which is not an IFRS measure of performance) and the way in which it is calculated, see the notes to the financial statements which are incorporated by reference in this Prospectus.

² Compound annual growth rate (which is not an IFRS measure of performance) is the implied annual growth rate in moving from the revenue level in 2011 to that in 2016, assuming a consistent annual growth rate over the period, and it is a common way of demonstrating growth of a particular part of a business over a period of time. It is therefore of relevance to investors.

³ £1,653 million, £1,658 million, £1,779 million, £1,880 million, £1,881 million and £1,824 million, for the periods ended 31 March 2011, 2012, 2013, 2014, 2015 and 2016 respectively (reconciled in the relevant financial statements of the SSE Group for those periods).

⁴ Based on customer numbers of 3.9 million, 3.9 million and 0.41 million for Scotland, the rest of the United Kingdom and the Republic of Ireland respectively.

networks may evolve, as the recent expansion of electricity transmission and sale of part of a stake in SGN show, they remain core to SSE's strategy in the short, medium and long-term and contribute significantly to its ability to deliver annual dividend increases.

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

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

SSEN is also establishing a Stakeholder Advisory Panel to work alongside its Board to help scrutinise business performance and effectiveness in meeting its commitments. The Panel will consist of a Chair and up to eight people, who are being recruited to reflect a broad range of external interests, skills, knowledge and experience. Through its work, the Panel will bring stakeholder insight and challenge to SSEN's decision-making at the highest level, helping to drive improvement in key processes and outcomes for customers.

Electricity Transmission

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

Since the start of the RIIO T1 price control, SSEN's capital investment in its transmission network has totalled £1.66 billion. With its committed pipeline of investment, it expects to increase its RAV from £2.3 billion as at September 2016 to around £3.0 billion by March 2018.

Good progress continues to be made with the delivery of SSEN's flagship Caithness-Moray transmission reinforcement which, with an agreed value of £1,118 million (2013/14 prices), is its largest single investment to date. In September 2016, the first part of the new Blackhillock substation, near Keith, was energised on schedule. Manufacture of the subsea cable has now been completed and a specialised cable-laying vessel is due to install this on the Moray Firth seabed during 2017. The Caithness-Moray reinforcement as a whole remains on course to be commissioned by the end of 2018.

Following successful energisation of the 220km Beaulay-Denny overhead line, SSEN has been engaging with OFGEM regarding recovery of efficiently incurred costs. OFGEM has published a consultation indicating that it is minded to allow recovery of final efficient costs which are not expected to exceed £670 million.

SSEN's delivery of these projects and other strategic investment in its transmission network has played an essential part in facilitating the rapid growth of low carbon electricity generation within its licence area. In the past decade it has enabled the connection of over 2GW of additional installed capacity, reaching a current total of 4,258MW.

As well as delivering major projects to reinforce the core network, it is responsible for providing transmission connections to major onshore generation sites at 132 kilovolts and above. In the six months to September 2016, it has connected an additional 231MW of installed capacity. Further connection projects currently in construction will connect a further 472.5MW.

During the six months to 30 September 2016, 25 new or modified connection offers were provided within the required period.

SSEN is committed to bringing forward its advanced proposals for new transmission links to the Scottish Islands if they are required. The development of these links remains subject to the ability of island generators to commit to their projects, which is widely recognised to be dependent on confirmation by the UK Government of their eligibility to participate in a future Contracts for Difference ("**CfD**") auction and EU State Aid clearance

for this policy support. SSEN continues to engage with affected stakeholders in order to progress the development of the links in anticipation of developer commitment. It is in a position to submit 'Needs Cases' to OFGEM for the Western Isles and Shetland in 2017 if the circumstances allow.

The main purpose of SSEN's significant investment in its network has been to facilitate the transmission of rapidly growing volumes of renewable energy safely and securely to customers. It is recognised that the efficient and flexible operation of its expanded network will play a crucial role in its success in the remainder of the current price control and beyond. SSEN has therefore established a dedicated and experienced team within its transmission business to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology. During this period of rapid change, including commissioning of substantial new assets and connection of large volumes of renewable generation capacity, SSEN has provided a highly reliable network. This is recognised through the Energy Not Supplied incentive under which SSEN can be rewarded or penalised for network performance. Full incentive was achieved in 2015/16 and this performance has been sustained during the current year.

To support the successful integration of new HVDC infrastructure on its own network and elsewhere in Great Britain, SSEN is leading the development of the National HVDC Centre in Cumbernauld via OFGEM's Electricity Network Innovation Competition. The centre will allow engineers to replicate the complexities of the future transmission system in real time using powerful computer simulators. This initiative will support early development of efficient operational strategies and enable potential risks to be identified and addressed. Construction of the centre began in August 2016 and it is due for completion during 2017.

SSEN continues to engage constructively with OFGEM and the Department for Business, Energy and Industrial Strategy ("BEIS") in relation to the development of the regime for Extending Competition in onshore Transmission ("ECIT").

The delivery of competition poses some potential risks to future growth and revenue, but also opportunities. SSEN believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements once the regime is implemented. Through its engagement with OFGEM, SSEN aims to ensure that its most advanced development projects can be delivered in a timely way under the existing framework. In the longer term, it is working to ensure that future arrangements developed under the ECIT project will deliver the transmission infrastructure required in a way that supports the UK Government's policy objectives, delivers value for end consumers and achieves a fair and reasonable return to investors.

The views of stakeholders have played a key part in SSEN's success in electricity transmission and will remain central to its future business plans.

Stakeholders have played a major part in the development of SSEN's Visual Impact of Scottish Transmission Assets ("VISTA") policy, which seeks to mitigate the impacts of existing transmission infrastructure in National Parks and National Scenic Areas. In August, SSEN received OFGEM approval for its proposed approach and expects to make its first funding application under the policy in 2017.

SSEN has also responded to stakeholders' interest in its supply chain and the economic and social contribution that its investments make. Modelling of its £1.1 billion Caithness-Moray investment has shown that £643.5 million of expenditure has been or will be made with UK-based suppliers or contractors. The project is also expected to support the equivalent of 10,971 years of employment in the UK. Through continuing work with its supply chain and with stakeholders, SSEN is committed to using the outputs of this modelling to maximise the direct benefits that its activities can bring to local economies.

Electricity Distribution

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

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2016 was 39.56TWh, compared with 39.6TWh in the previous year and in the six months to 30 September 2016 was 18.1TWh. Capital expenditure in electricity distribution networks was £258.3 million in the year to 31 March 2016, compared to £327.6 million in the previous year and in the six months to 30 September was £111.6 million.

During 2015/16, its first year under the incentives based RIIO ED1 price control, SSEN continues to make significant steps in driving change in its operations, processes and standards. The change programme introduced in 2015 is bedding in and is helping the business meet the demands of the price control settlement agreed with OFGEM. The focus on operational excellence has continued to see strong gains made in customer service, which are ultimately expected to support improving performance against the incentives built into RIIO ED1.

The most financially significant of these incentives are the two measures of loss of electricity supply: Customer Interruptions (“CIs”) and Customer Minutes Lost (“CMLs”). SSEN’s continued adoption of the “restore first, repair second” method has helped in SSEN’s CIs and CMLs remaining relatively low. SSEN’s commitment to minimising the occurrence and duration of customer interruptions saw the CML at 27 minutes in Scotland and 23 minutes in England per customer; and CIs at 34 per 100 customers in Scotland and 26 per 100 customers in England in the six months to 30 September 2016. While the figures are a marginal increase compared with the same period in 2015, they continue to reflect SSEN’s strong performance and its committed service to its customers.

Further investment in network resilience, including additional automation, other innovations and targeted tree cutting, mean that SSEN is on target to achieve the performance it has targeted for incentive income during RIIO ED1.

The regionalised model introduced across SSEN’s distribution business in 2015 has created greater responsibility and decision-making at a regional level, driving further innovation, responsiveness to stakeholders and improvements in performance.

The second round of awards from SSEPD’s £1.3 million Resilient Communities Fund, which was established to support local communities in their preparation and response to emergencies, has been made in first half of 2016/17. The fund was established using money remaining from an amount agreed with OFGEM following weather-related electricity supply disruption over the Christmas period in 2013/14.

Gas Distribution

SGN manages the network that distributes natural and green gas to 5.9 million homes and businesses across Scotland and the south of England. In line with its equity holding SSE received 50 per cent. of the distributable earnings from SGN, which reduced to 33.3 per cent. on 26 October 2016 on completion of the part disposal sale to ADIA. Through a managed service agreement, SSE continues to provide some back-office support.

As at 30 September 2016, SGN’s total RAV was £5,110 billion (including SSE’s share of £2,555 billion). In the first half of 2016/17, SGN invested £84.5 million (£79.9 million in the same period in the previous year) in capital expenditure on mains and services replacement projects. SGN is focused on ensuring its outputs under OFGEM’s RIIO framework are met, incentives are maximised and innovation is delivered effectively while running an efficient, safe and reliable network. SGN’s investment programme is key to this and, within overall cost allowances of over £4.6 billion (at 2012/13 prices), OFGEM has allowed over £2.8 billion over the current eight year price which runs until 2021 to cover new capital investment and to manage the risks to SGN’s existing assets.

Retail

SSE is one of the largest energy suppliers in the competitive markets in Great Britain and Ireland. As at 31 December 2016 it supplied electricity and gas to 8.08 million household and business accounts, compared to 8.28 million as at 31 December 2015. It also provides other related products and services including telephone,

broadband and boiler care to 0.46 million household and business customers as at 31 December 2016, compared to 0.39 million households as at 31 December 2015. The Retail segment includes the Enterprise business which provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way. The adjusted operating profit for Retail was £455 million for the financial year ended 31 March 2016, including £41 million from the Enterprise business, which was 25 per cent. of the Group's total adjusted operating profit. Taken together these businesses provide balance to the SSE Group and demonstrate SSE's commitment to efficient operations and industry-leading customer service.

In the context of the rapidly evolving competitive environment in which its Retail business operates, SSE has embarked on a transition from commodity provider towards its vision of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently excelling in customer service. As part of this strategy, it continues to focus on addressing the decline in its energy customer numbers while investing in the expansion of its non-energy businesses to identify opportunities for growth across several markets.

Energy supply and Energy Related Services

SSE appreciates that customers rely on its core products of electricity and gas to power and heat their homes in order to live safely and comfortably, and is therefore committed to keeping energy prices as low as possible. SSE aims to protect its customers from short-term price volatility and as a result has not increased standard prices for 40 months, having also reduced prices three times during that period. Looking ahead, SSE will aim to achieve the right mix of investment in digitalising customer service while also managing cost efficiency.

SSE is continuing to work to address the decline in customer numbers it has experienced in recent years and is aiming to reduce significantly the rate of customer losses. The market for energy supply in Great Britain in particular continues to be intensely competitive, with political, regulatory and market factors all contributing to the rapid growth of new market entrants and increasing levels of customer engagement in the market, meaning there are now more than 40 suppliers operating in the Great Britain market alone. At the same time the regulatory environment in which SSE operates is changing following the conclusions of the CMA inquiry, supported by government and the regulator, many of which are designed to unlock innovation in the market and drive further customer engagement and switching.

Against this backdrop, SSE is adapting and competing by offering a range of market-leading deals through a diverse mix of channels. At the same time, SSE is seeking to develop stronger, more enduring customer relationships by investing in high-quality customer service, offering a broader range of products in the home and a programme of rewards that recognise the value of customer loyalty.

SSE firmly believes that its strategy of becoming a market-leading retailer of energy and essential services, by digitalising and diversifying its business, and consistently leading in customer service, is the right response to an increasingly competitive and rapidly evolving market, and one which will enable it to leverage its strong competencies in customer service and efficient operations.

It continues to make progress in the delivery of this strategy, with developments in the first half of 2016/17 including: (i) the launch of market-leading boiler cover propositions as it moves closer to completing the national expansion of its Home Services business; (ii) introduction of a range of market-leading, well subscribed tariffs in energy and broadband to attract new customers; (iii) the deployment of resources into its customer-facing operations to deliver on its service ambitions; (iv) a successful pilot of its smart prepayment solution, to be rolled out later this year; (v) delivery of further operational efficiencies across the Retail business; and (v) further work to scope out partners and solutions for possible improvements to back-end systems to ensure that SSE is able to meet the future needs of customers.

At the same time SSE continues to invest in its brand, having become the flagship sponsor of the ITV national weather and the first major sponsor of women's football in Scotland, complementing existing sponsorships in

sport and entertainment to ensure SSE not only appeals to customers but is able to offer additional value and rewards in areas that interest them.

Smart Meters

SSE's metering business is undergoing a transformation through the smart meter rollout; however, it still undertakes meter reading operations and meter operator work in all parts of Great Britain. SSE believes strongly in the potential for the national roll-out of smart meters to transform the relationship between customers, their energy usage and their supplier in the coming years. Capitalising on this opportunity is fundamental to the strategy of the Retail Business.

Doing so requires a roll-out which is both cost-effective and customer-centric, not only installing the meters efficiently but also engaging customers with the technology so that the benefits outweigh the costs to customers. SSE has continued to ramp up its capacity and delivery of smart meters and, as of 31 October 2016, SSE had installed more than 340,000 smart meters. So far, customer feedback on their experience of the installation has been extremely positive.

In its 2015/16 annual report, SSE described 2016/17 as a pivotal year for the smart programme, with the central communications infrastructure provided by the Data Communications Company ("DCC"), which will enable suppliers to build up to mass deployment, due to be delivered after significant delays. SSE also stated that any further delays to the DCC's delivery must be reflected in the overall programme timetable to avoid any negative impacts for customers.

Unfortunately, delays to delivery of the DCC's infrastructure have continued, with both outstanding releases now beyond all contingency agreed by the Secretary of State in March 2015. Combined with a range of other outstanding constraints, this is undermining confidence in the programme and compressing the window in which suppliers can roll out the enduring solution at scale, driving up costs and creating challenges for the industry. It is therefore SSE's view that revisions to the 2020 timetable are urgently required in order to protect customers and ensure benefits are delivered; smart meters are a means to an end, not an end in themselves, and SSE has urged government to reconsider whether the 2020 deadline is still appropriate or in the best interests of customers.

Enterprise

SSE Enterprise was formed in 2014 and now incorporates five of SSE's businesses: Contracting, Rail, Slough Heat and Power, Telecoms and Utilities, supported by centralised sales and project delivery teams. As a multi-disciplined engineering services partner for businesses, building a sustainable infrastructure for the future, SSE Enterprise provides energy services to meet the needs of businesses and public sector organisations in a reliable and sustainable way.

With a significant self-delivery capability, SSE Enterprise: (i) designs, builds, maintains and operates complex mechanical and electrical engineering infrastructure; (ii) provides industry-leading telecoms connectivity and data centre services, meeting the connectivity and communication needs of businesses with bespoke solutions; and (iii) designs builds, maintains and operates electricity, gas, water, heat and cooling networks for commercial and residential developments.

To take the business forward in the next phase of its development, Neil Kirkby, previously Managing Director of Global Power Networks at Balfour Beatty, joined SSE Enterprise in January 2017 as its Managing Director.

Wholesale

Creating sustainable, long-term value from wholesale markets for investors and customers is the strategic objective of SSE's Wholesale businesses. This should be delivered through the responsible production, storage and delivery of energy and related services; a focus on meeting the needs of its customers; ongoing rigour in optimising its portfolio of existing assets and those in development. SSE's wholesale segment delivers this through Energy Portfolio Management ("EPM") and Electricity Generation. The adjusted operating profit for

the Wholesale business was £443 million for the financial year ended 31 March 2016, which was 24 per cent. of the Group's total adjusted operating profit.

In addition, also within wholesale, Gas Production is responsible for the efficient delivery of gas from the physical gas fields that SSE has a shared ownership in and developing future opportunities; and Gas Storage is responsible for the operation and management of SSE's gas storage facilities, their maintenance and ensuring they are available for use by SSE and third parties.

Wholesale's key priorities in 2016/17 and beyond are: (i) ensuring the safe reliable operation of all wholly-owned assets and those in which SSE has an ownership interest; (ii) securing a stable and predictable supply of energy to meet SSE's needs; (iii) delivering SSE's investment in renewable energy and other electricity generation plant; (iv) driving business change to respond effectively to market change and regulatory developments in Great Britain, Northern Ireland, Republic Of Ireland and EU regulations; and (v) securing value, where appropriate, through the risk-managed trading of energy-related commodities.

Energy Portfolio Management

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

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

In recent years, SSE has typically required around seven million therms of gas per day to supply its gas customers and to fuel its power stations, and around 130GWh of electricity per day to supply all its electricity customers. EPM has three primary routes to competitively and sustainably procure the energy and fuels it needs to meet demand: (i) SSE-owned assets including upstream gas exploration and production and thermal and renewable electricity generation; (ii) long term gas producer contracts, power purchase agreements (with SSE – owned plant and third parties) and solid fuel contracts; and (iii) trading energy contracts transparently on international exchanges or through 'over the counter' markets.

Managing risks associated with energy procurement across these three routes is a key requirement for EPM. In establishing the separated legal entity to manage these risks and requirements on behalf of the Group's Energy Supply, Generation and Gas Production businesses, SSE has enhanced the reporting transparency and accountability of this activity. By optimising energy procurement through a diverse portfolio, SSE aims to shelter its portfolio from the inevitable volatility that exists in global markets.

Generation

SSE's primary objective for its Generation division is to safely, efficiently and reliably maintain and operate a diverse generation portfolio, which includes substantial amounts of capacity for renewable energy, across the UK and Ireland. This objective is underpinned by six principles that direct the operation of, and investment in, its Generation portfolio: (i) compliance – with all safety standards and environmental and regulatory requirements; (ii) diversity – to avoid over-dependency on particular fuels or technologies; (iii) capacity – that is well maintained to meet the requirements of the UK and Irish electricity systems; (iv) availability – to respond to system demand and market conditions; (v) flexibility – to ensure that changes in demand for electricity and

the variability of generation from wind farms can be managed; and (vi) sustainability – to support progressive reduction in the CO₂ intensity of electricity generated through the cost efficient decarbonisation of its generation fleet. By moving towards a lower carbon generation mix, SSE is transitioning its Generation assets from a portfolio weighted towards gas and coal, to one weighted towards gas and renewables.

SSE currently owns or has an ownership interest in 10,609MW of capacity, which comprised at 30 September 2016: (i) 4,013MW of gas-fired generation capacity (Great Britain); (ii) 1,292MW of gas and oil fired generation capacity (Ireland); (iii) 2,029MW of coal fired generation capacity (Great Britain) (including waste to energy capacity); and (iv) 3,275MW of renewable generation capacity (Great Britain and Ireland) (including pumped storage).

Generation – Great Britain (thermal)

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

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

OFGEM has consistently maintained that during the period to 2018/19 it expects electricity generation capacity margins will be lower than they were in recent years due to weak market economics and the closure of older plant.

The UK Government, together with National Grid (as the System Operator) and OFGEM, has decided to address this issue in two ways:

- in the longer term through the implementation of the Capacity Market. SSE supports the UK Government's plans to incrementally improve the Capacity Market, including the planned supplementary capacity auction for winter 2017/18; and
- in the intervening period, through the Supplemental Balancing Reserve (“**SBR**”) which will close after winter 2016/17.

The design and operation of both the Capacity Market and SBR mechanisms is set by the UK's Department of Business, Energy and Industrial Strategy (“**DBEIS**”) and National Grid. They determine how much capacity is required to ensure security of supply under each mechanism. Once this volume has been determined they procure the necessary capacity through a competitive auction/tender process.

In October 2016 the UK Government revised the previously published parameters for the volume of generation capacity required under the next round of Capacity Market auctions to: (i) 53.6GW in the supplementary auction for delivery in 2017/2018; and (ii) 51.7GW in the auction for delivery in 2020/2021 (with an additional 600MW in the associated year ahead auction). SSE believes that putting a price on carbon emissions, through the UK's Carbon Price Floor, is a critical part of the UK's energy policy and is one of the most important policy tools the government has to help industry continue to deliver reliable and lower carbon electricity cost-effectively. The Carbon Price Floor arrangements are in place until April 2021. SSE has publicly supported the extension of the Carbon Price Floor beyond that.

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

- Medway (700MW wholly owned) has continued to perform well in response to market requirements and contractual obligations, and it has taken on a capacity obligation for 2018/19 and 2019/20;

- Keadby (735MW wholly owned) returned to service in November 2015 following its removal from the market in March 2013. Keadby also has capacity obligations for 2018/19 and 2019/20;
- Peterhead (1,180MW wholly owned) 400MW of Peterhead's capacity returned to service in November 2015 following the completion of major upgrade work to improve the flexibility and efficiency of the station. It has a SBR contract to provide support services to National Grid for winter 2016/17 and a one year voltage control contract until the end of March 2017; and
- Seabank (1,164MW) and Marchwood (840MW). SSE has a 50 per cent. stake in each of these gas-fired power stations, which have both taken on capacity obligations for 2018/19 and 2019/20.

SSE operates a wholly-owned coal-fired power station at Fiddler's Ferry (Cheshire, 1,995MW). In March 2016 Fiddler's Ferry successfully secured a contract to provide ancillary services to National Grid. The one-year contract, which ends on 1 April 2017, covers one of the three available units at the site. It was secured following SSE's response to an invitation to tender issued by National Grid.

In December 2016 SSE provisionally secured agreements to provide a total of 3,239MW of de-rated electricity generation capacity from October 2020 to September 2021 in the GB Capacity Market Auction. The T-4 auction cleared at a price of £22.50/kW (kilowatt), subject to confirmation by the Secretary of State for Business, Energy and Industrial Strategy.

The SSE capacity which has provisionally secured an agreement in the T-4 auction comprises:

- 873MW of hydro electric and pumped storage plant;
- 2,323MW of gas-fired and embedded power generating plant; and
- 43MW of demand-side response.

This means 3,794MW of SSE's de-rated capacity which prequalified for the auction did not secure an agreement. This includes its gas station at Peterhead and its coal station at Fiddlers Ferry. The total value secured by SSE is £72.9 million. The revenue will be received on a pro-rated basis throughout the delivery year.

In February 2017 SSE provisionally secured agreements to provide a total of 4,451MW of de-rated electricity generation capacity from October 2017 to September 2018 in the GB Capacity Market Auction. The auction cleared at a price of £6.95/kW (kilowatt), subject to confirmation by the Secretary of State for Business, Energy and Industrial Strategy.

The SSE capacity which has provisionally secured an agreement in the auction comprises:

- 840MW of hydro electric and pumped storage plant; and
- 3,611MW of coal, gas-fired and embedded power generating plant.

The total value secured by SSE is £30.9 million. The revenue will be received on a pro-rated basis throughout the delivery year.

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

Peterhead power station (1,034MW de-rated capacity) did not secure an agreement. The station's location means it is required to pay significantly higher Transmission Entry Capacity (TEC) costs than other power stations on the electricity system. This puts it at a disadvantage in the Capacity Market auction. In light of these provisional auction results, the fact that Peterhead has failed to secure a contract in any of the three previous Capacity Market auctions, and other economic considerations, mean that SSE will be reviewing future options for the station over the coming months and will engage with all stakeholders during this review. The review will not impact current operations at the station.

One unit at Fiddler's Ferry power station (423MW de-rated capacity), which is not fitted with Flue Gas Desulphurisation plant, also failed to secure an agreement.

SSE's generation strategy is built upon managing risk through owning a diverse range of assets and fuels from which to meet the needs of customers. Multifuel is an important part of that strategy. Multifuel Energy Ltd ("MEL") (the SSE and Wheelabrator Technologies Inc. 50:50 joint venture) operates a 68MW multi-fuel generation facility known as Ferrybridge Multifuel 1 ("FM1") in Knottingley, West Yorkshire. The station has taken on capacity obligations for 2018/19 and 2019/20 and has prequalified for the 2017/18 and 2020/21 Capacity Market auctions. Construction has commenced at SSE's Ferrybridge Multifuel 2 ("FM2") project after the Final Investment Decision was taken in June 2016. The project is being built next to the FM1 facility. The completed plant will be able to generate around 70MW of electricity, enough to power around 170,000 homes. It has prequalified for the 2020/21 Capacity Market auction.

Generation – Great Britain (renewable)

Based on renewable energy capacity in operation, SSE continues to be the UK's leading generator of electricity from renewable sources and the largest generator of electricity from wind across the UK and Ireland. As at 30 September 2016, it had 2,731MW of renewable energy capacity in operation in Great Britain (as well as 544MW in Ireland), including its share of joint ventures. The Great Britain portfolio comprised (net): (i) 1,150MW of conventional hydro and 300MW of pumped storage; (ii) 900MW of onshore wind; (iii) 344MW of offshore wind; and (iv) 37MW dedicated biomass. Total electricity output from all of SSE's renewable resources in Great Britain and Ireland (including pumped storage) was 3.1TWh in the six months to 30 September 2016, compared to 3.9TWh in the six months to 30 September 2015, and 9.7TWh in the financial year ended 31 March 2016, compared to 8.5TWh in the financial year ended 31 March 2015. The primary driver for this differential was the weather; there was lower rainfall and less windy conditions in the first half of 2016/17 across Great Britain than in the same period in the previous year. Overall renewable capacity also reduced slightly, from 3,093MW to 2,975MW, following the sale of 49.9 per cent. of Clyde wind farm in March 2016. Availability of the renewable portfolio remained high throughout the period.

SSE continues to operate under the policy support regime for renewable generation capacity in the UK, currently delivered through the Renewables Obligation ("RO") (the RO applies also in Northern Ireland); and the CfD mechanism. SSE expects its RO-qualifying onshore wind capacity to reach 428MW by 2018.

The policy framework for renewable generation was subject to a number of interventions by the UK Government after it took office in May 2015. These include: (i) the early closure of the RO to new onshore wind; (ii) a delay until late 2016 of the second CfD auction for "less established" technologies, including offshore wind; (iii) the clear signal that CfDs in their current form are unlikely to be generally available to new onshore wind; and (iv) the removal of levy-exemption certificates ("LECs") for renewable electricity.

In order to support future investment in a balanced range of energy assets SSE has, as first outlined in March 2014 recycled capital by delivering a programme of selective disposals of non-core assets and operational and in-development onshore wind projects. In March 2016 agreements were signed for the sale of 49.9 per cent. of the operational 349.6MW Clyde Wind Farm located in South Lanarkshire to UKW and GLIL for a headline consideration of £355 million. When the 172.8MW extension to Clyde is commissioned the equity stake jointly owned by UKW and GLIL will be diluted to 30 per cent. with SSE retaining 70 per cent. and providing long term management services for the day to day operations of all 522.4MW.

Onshore Wind Farms

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

SSE has four onshore wind projects in construction or pre-construction, which will qualify for the UK RO: (i) Dunmaglass (94MW) – the project is now exporting energy and scheduled for completion by the end of

2016/17; (ii) Clyde Extension (172MW) – turbine erection underway and expected to be fully operational in 2017; (iii) Bhlairaidh (108MW) – turbine erection underway and expected to be fully operational in 2017; and (iv) Stronelairg (225MW) – currently in pre-construction and expected to be fully operational in 2018.

SSE also has onshore wind projects in development that will not qualify for the RO: (i) Viking (with consent) (up to 457MW – SSE share 50 per cent.) SSE, with its Joint Venture partner, has continued to develop this project which requires State Aid clearance from the European Commission and confirmation it will be eligible to participate in forthcoming CfD auctions; (ii) Strathy South (in planning) (up to 133MW), objections were examined fully at a Public Local Inquiry in 2015 and it is now awaiting a consent decision from Scottish Ministers; and (iii) Gordonbush Extension (in planning) (up to 32MW) – Highland Council did not object to the application at a planning committee meeting in February 2016 and it is now awaiting a consent decision from Scottish Ministers.

Offshore Wind Farms

SSE's offshore efforts and resources have been focused on the Beatrice project (588MW – SSE share 40 per cent.) planned for the outer Moray Firth. The project is progressing in accordance with the terms of the Investment Contract awarded by the UK government in 2014. Beatrice is project financed with non-recourse debt and reached financial close on 20 May 2016. SSE's Joint Venture partners on the project are Copenhagen Infrastructure Partners (CIP) who increased their interest from 25 per cent. to 35 per cent. in February 2016 and SDIC Power who have a 25 per cent. stake. Onshore construction is underway, offshore construction is planned to commence in 2017, and the project is expected to be fully operational by 2019.

In addition to Beatrice, SSE has an interest in two further offshore wind farm developments: (i) Seagreen (up to 3,500MW – a 50:50 partnership with Fluor Limited); and (ii) Forewind (up to 4,800MW – a four-way partnership with RWE Innogy, Statoil and Statkraft). The first phase of Seagreen (up to 1,050MW) was subject to a judicial review in the Court of Session which found in favour of the petitioner, RSPB, in July 2016. The Seagreen partners will work with The Scottish Government to progress an appeal of this judgment. Forewind has consent for four separate 1,200MW projects in the Dogger Bank Zone and the four Joint Venture partner organisations will agree the best route forward for each.

The UK Government confirmed in the Budget 2016 that it intends to auction £730 million of CfD contracts in this parliament for offshore wind and other less established technologies connecting in 2021-26. The first auction is expected to be later this year with £290 million available. This announcement provides welcome clarity about the future for offshore wind.

Generation – Ireland

SSE is the third largest generator by capacity in the all-island Single Electricity Market (“SEM”). It owns and operates 1,836MW of generation capacity of which 544MW is from renewable sources. This makes SSE the largest single generator of wind power in the SEM. The company also trades across the interconnectors between the UK and Ireland.

In the six months to 30 September 2016 SSE's new 464MW Great Island CCGT unit (grid connection capacity set at 431MW) exported 1.4TWh of electricity, up 41 per cent. on the same period in 2015. The improved generation performance is due to increased power demand and prevailing market conditions, including the improved position of gas plant relative to other generation types.

SSE continues to invest in renewable electricity generation in Ireland. Over the two years to March 2018, SSE will add 192MW of new Irish wind power generation capacity to its existing fleet. In the Republic of Ireland, construction of the two-phase 174MW (SSE share 120MW) Galway Wind Park project is ongoing. Phase 1 of the project (66MW), which entered construction in February 2015, is owned and financed by SSE. Phase 2 (108MW) is a 50:50 joint venture between SSE and Coillte. Galway Wind Park is expected to be commissioned in 2017, qualifying the wind farm for the REFIT II support scheme. The Lenamore (18MW) will also qualify for

REFIT II. Pre-construction commenced in January 2017, and the wind farm is expected to be fully operational in 2018.

In Northern Ireland, SSE is currently constructing the 35MW Tievenameenta and the 19MW Slieve Divena II Wind Farms in Co. Tyrone. Both projects will be fully operational in 2017, meeting the criteria for Northern Ireland's RO grace period.

SSE continues to advance its planned Doraville Wind Farm development (up to 115MW), a planning application for which is currently before Northern Ireland's Department for Infrastructure. This project will not qualify for the RO.

Reform of the Republic of Ireland's and Northern Ireland's SEM to comply with the EU Electricity Target Model continues with regulators in each jurisdiction progressing the Integrated SEM (I-SEM) project due for introduction by the end of 2017. In July 2016, regulators said they considered it very unlikely that the UK decision to leave the EU would have any significant impact on I-SEM programme delivery. In addition, the UK Prime Minister has advised the Northern Ireland First Minister that resolving the SEM will be a priority for the UK government. For its part SSE continues to be fully involved in all stages of the ongoing new market design and implementation process.

Gas Production

Gas Production is responsible for the efficient delivery of gas from the offshore gas fields in which SSE has a shared ownership. Total output in the six months to 30 September 2016 was 314.5 million therms (5.11mn boe) of gas and 0.47mn boe of liquids, compared with 191.3 million therms of gas (3.11mn boe) and 0.03mn boe in the same period in the previous year. This rise in production was due to the start up of the Laggan field in February 2016 although there has also been a natural decline in output from existing fields. The Greater Laggan Area acquisition is expected to mean SSE's average annual volumes of gas and liquids produced will be at a higher level than those it reported in previous years with a forecast average production of around 500 million therms (8.1mn boe) of gas and 0.85mn boe of liquids per year in the five years to March 2021.

SSE had regularly set out its intention to seek new opportunities to increase its asset base to help meet gas demand requirements, with the UK and north-west Europe the focus for this activity due to the relatively stable tax and fiscal regime and proximity to SSE's domestic energy supply markets. In line with this long-term strategy SSE announced in July 2015, that it had entered into an agreement with Total E&P UK Limited to acquire: a 20 per cent. interest in the four gas fields and surrounding exploration acreage approximately 125km north west of the Shetland Islands, collectively known as the Greater Laggan Area; and a 20 per cent. interest in the new Shetland Gas Plant. The acquisition was completed in October 2015. Total E&P UK Limited is the operator of, and owns a 60 per cent. stake in these assets. The remaining 20 per cent. is owned by DONG Energy.

Gas production started in February 2016 from the Laggan field and in August 2016 from Tormore field which have reached peak production of up to 90,000 boe a day (SSE share 20 per cent.) which will help to secure energy for SSE's customers and help meet the needs of SSE's gas-fired power stations contributing to security of electricity supply. The nearby Edradour and Glenlivet fields are expected to start production in 2017 and 2018 respectively and should keep production at peak rates through to 2020.

The new Shetland Gas Plant is located close to Sullom Voe and will process and export produced gas and condensate from developments in the west of Shetland for onward delivery to the St Fergus Gas Terminal for gas; and via the Sullom Voe Oil Terminal for liquids. This makes it one of the most important infrastructure developments in the UK. Production started in February 2016 and it is expected to process and export gas and condensate for producers West of Shetland well into the 2030s.

In addition to helping meet SSE's gas demand requirements, the acquisition is expected to create value over the long term, despite the current impact of lower gas prices, and represents SSE's focus on maintaining a balanced range of energy businesses across its portfolio.

SSE's UK Continental Shelf upstream portfolio is predominantly gas weighted with only associated liquids and as per the independent Reserves Audit, at 31 March 2016, SSE's total economically recoverable net proven plus probable (2P) reserves, taking into account all technical and economic variables was estimated to be 3.6 billion therms (58.8 mn boe) in all of the fields in which SSE has an ownership interest (compared to 1.7 billion therms (28.2 mn boe) as at 31 March 2015).

The future gas production profile of SSE's existing assets and the The Greater Laggan Area assets is anticipated to peak at approximately 622 million therms in the year to 31 March 2017, declining to approximately 200 million therms around 2022/23 and declining to approximately 45 million therms around 2027/28. This is based on a number of assumptions and factors, including estimated reserves and projected capital expenditure and as such is subject to change.

Gas Storage

Gas Storage is responsible for the safe, efficient and reliable operation and maintenance of SSE's gas storage facilities, and for ensuring they are available for use by its customers.

Both of SSE's storage sites have continued to operate to meet the needs of their customers through the first half of 2016/17, with the Hornsea (Atwick) site returning to service following its extended outage commenced in 2015/16:

- Hornsea (Atwick) again met 100 per cent. of customer nominations with the site 47 per cent. available through the year except in instances of planned maintenance. The site was 76 per cent. available in the three months to 30 September 2016, following the return to service of the site earlier in the year, with the site delivering over 90 per cent. availability by the end of the period; and
- Aldbrough met 100 per cent. of customer nominations and was 98 per cent. available through the six months to September 2016 except in instances of planned maintenance.

Alongside the requirement to continue to ensure the highest standards of asset management are maintained, SSE continues to review its gas storage business on an ongoing basis. Its overall aim is to continue to provide valuable flexibility and hedging services to its customers and hence the wider UK gas market, while managing its profitability and being as well positioned as possible to take advantage of future market developments.

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. SSE's total debt and hybrid capital was £8.8 billion as at 31 January 2017. Its average debt maturity as at 31 January 2017 was 8.9 years, compared with 8.9 years at 31 March 2016.

SSE's debt structure remains strong, adjusted net debt and hybrid capital⁵ was £8.6 billion as at 31 January 2017 in the form of issued bonds, European Investment Bank debt and other loans. Fixed rate debt accounted for 90 per cent. of SSE's total debt as at 31 January 2017 and SSE expects this to fall to 87 per cent. by 31 March 2017. The balance of SSE's adjusted net debt is financed with short-term bank debt. SSE's adjusted net debt and hybrid capital includes cash and cash equivalents totalling £409.1 million. The facilities, external debt and internal loan stocks for the SSE Group as at 31 January 2017 (with sterling equivalents (where applicable) as at that date) were as follows:

- | | |
|-----|---|
| SSE | <ul style="list-style-type: none">• U.S.\$700 million (£446.6 million) U.S. private placement due between 2017 and 2024• £501.1 million U.S. private placement due between 2023 and 2027 |
|-----|---|

⁵ For more information on the relevance of adjusted net debt and hybrid capital (which is not an IFRS measure of performance) and the way in which it is calculated, see the notes to the financial statements which are incorporated by reference in this Prospectus.

	<ul style="list-style-type: none"> • £500 million 5.0 per cent. bonds due 2018 • ¥15 billion (£126.6 million) 3.52 per cent. fixed rate notes due 2018 • £300 million 4.25 per cent. bonds due 2021 • £300 million 5.875 per cent. bonds due 2022 • £500 million 8.375 per cent. bonds due 2028 • £350 million 6.25 per cent. bonds due 2038 • €600 million 2.00 per cent. bonds due 2020 (£510.6 million of principal outstanding) • €500 million 2.375 per cent. bonds due 2022 (£415.0 million of principal outstanding) • £1.3 billion revolving credit facility maturing 2021 (undrawn) • £1.5 billion Euro Commercial Paper programme (undrawn) • £200 million revolving credit facility maturing 2018 (undrawn) • €700 million 1.75 per cent. bonds due 2023 (£514.6 million of principal outstanding) • £100 million European Investment Bank loan due 2020 • £300 million European Investment Bank loan due 2021 • U.S.\$150 million (£106.0 million) bank loan due 2018
SSE Generation Limited	<ul style="list-style-type: none"> • £1,550 million intercompany loan stock due to SSE
SHEPD	<ul style="list-style-type: none"> • £132.4 million 1.429 per cent. index linked bonds due 2056 • £300 million intercompany loan stock due to SSE
SEPD	<ul style="list-style-type: none"> • £350 million 5.5 per cent. bonds due 2032 • £325 million 4.625 per cent. bonds due 2037 • £121.1 million 4.454 per cent. index linked loan maturing 2044 • £400 million intercompany loan stock due to SSE
SHE Transmission plc	<ul style="list-style-type: none"> • £1,063.1 million intercompany loan stock due to SSE • £150 million European Investment Bank loan due 2021 • £150 million European Investment Bank loan due 2022 • £50 million European Investment Bank loan due 2023 • £300 million European Investment Bank Loan due 2026
SSE Services plc	<ul style="list-style-type: none"> • £30 million intercompany loan stock due to SSE
SSE Hornsea Limited	<ul style="list-style-type: none"> • £240 million intercompany loan stock due to SSE
SSE E&P UK Limited	<ul style="list-style-type: none"> • £130 million intercompany loan stock due to SSE
Keadby Generation Limited	<ul style="list-style-type: none"> • £120 million intercompany loan stock due to SSE
SSE Generation Ireland Limited	<ul style="list-style-type: none"> • €74.8 million (£63.7 million) intercompany loan stock due to SSE
SSE Renewables Holdings Limited	<ul style="list-style-type: none"> • £0.5 million bank loan

Hybrid Capital

On 10 March 2015, SSE issued £750 million and €600million hybrid capital bonds (the “**Sterling 2015 Hybrid Bonds**” and the “**Euro 2015 Hybrid Bonds**” respectively) and on 18 September 2012 issued €750 million and \$700 million bonds (hybrid capital) (“**2012 Hybrid Bonds**”). The hybrid capital bonds have no fixed redemption date but SSE may, at its sole discretion, redeem all (but not part) of these bonds at their principal amount on: (i) 1 October 2017 or every five years thereafter for the 2012 Hybrid Bonds; (ii) 10 September 2020 or every five years thereafter for the Sterling 2015 Hybrid Bonds; and (iii) 1 April 2021 or every five years thereafter for the Euro 2015 Hybrid Bonds. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to compliance with certain conditions, including no dividend having been declared on SSE’s ordinary shares (in 2015/16, SSE’s dividend per share was 89.4 pence, compared with 88.4 pence in 2014/15 and SSE is committed to delivering dividend growth and expects to continue targeting dividend increases of at least RPI inflation).

The hybrid capital for the SSE Group as at 31 January 2017 (with sterling equivalents (where applicable) as at that date) totalled £2.21 billion and was as follows:

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

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

In its Interim Results published on 9 November 2016 SSE announced that the decision to proceed with the 225MW Stronelairg onshore wind farm meant that its investment and capital expenditure was expected to be around £6 billion over the period 2016-20. Around £5 billion of this is already committed to economically-regulated electricity networks and government-mandated renewable energy projects.

For 2016/17, SSE now expects that its capital and investment expenditure will total around £1.75 billion (gross), which would still be the highest annual investment and capital expenditure by the company to date. Capital spend in the nine months since 1 April 2016 has included:

- (i) Wholesale: just under £250 million to progress SSE’s 1GW of new wind capacity in construction or pre-construction. This includes six projects qualifying for the GB and NI RO totalling 429MW in construction and 225MW in pre-construction. In addition, the 588MW Beatrice offshore wind farm, in which SSE has a 40 per cent. stake, has a CfD and remains on course for completion in 2019. The

completion of these and other wind farms is expected to take SSE's total wind farm capacity in operation to 2.8GW (net).

- (ii) Networks: over £550 million in Distribution and Transmission investment, including progress with the Caithness-Moray transmission link, the largest capital project undertaken by SSE, which is scheduled for completion in 2018, and investing to improve service quality for customers in Electricity and Gas Distribution. The completion of the Caithness-Moray link and other projects is expected to take the total RAV of all of SSE's economically-regulated networks businesses to close to £9 billion by 2020.
- (iii) Retail: investment totalling over £125 million in energy supply and related services, including work associated with the roll-out of smart meters. Although any programme of the scale and complexity of Britain's smart meter roll-out presents obvious challenges, particularly in terms of driving customer take-up, SSE believes fundamentally that the roll-out has the potential to transform the relationship between customers, their energy usage and their supplier, and it remains focused on maximising these benefits for customers. SSE does not intend to take a decision to replace its existing energy supply customer billing system in the foreseeable future, focusing instead on continuing improvements in its front-end digital services and delivery of smart meters for customers.

Returning value to shareholders

As outlined in the Interim Results published on 9 November 2016, SSE intends to use around £500 million of the proceeds from the 16.7 per cent. equity stake divestment in SGN to return value to shareholders by way of an on-market share buy-back. The buy-back has started and as at 30 January 2017 SSE had completed £87 million of the buy-back and the process should be concluded by 31 December 2017.

Regulatory Environment

Electricity Generation

The electricity industry in Great Britain is regulated by the Authority. The principal objective of the Authority, as set out under the Electricity Act 1989, is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems; wherever appropriate by promoting effective competition. OFGEM provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The Authority's duties include ensuring that licence holders are able to finance their statutory and licence obligations, and that they operate their business with regard to the effect on the environment.

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

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

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

provide a total of 3,150MW of de-rated electricity generation capacity at a price of £18/kW. In the auction held in December 2016 (for capacity delivery from October 2020 to September 2021), SSE secured agreements to provide a total of 3,239MW of de-rated electricity generation capacity at a price of £22.50/kW.

In addition to the capacity mechanism, National Grid was permitted by OFGEM to procure additional balancing reserves through SBR contracts. SBR is designed to provide additional reserves to support National Grid in balancing the transmission system if there is insufficient generating plant available in the market. SSE has three units with SBR contracts (Peterhead, Fiddler's Ferry and Keadby). In March 2016, SSE also secured an additional ancillary services contract with National Grid for Fiddler's Ferry, to provide Black Start capability.

The environmental impact of the operation of large generating stations in Great Britain is regulated by the Environment Agency in England and Wales ("EA"), Natural Resources Wales in Wales ("NRW") and the Scottish Environmental Protection Agency in Scotland ("SEPA"). EA and SEPA were both established under the Environment Act 1995, whereas NRW only became operational from 1 April 2013 when it took over the management of natural resources of Wales. The operation of SSE's generating plant in England and Wales and Scotland is carried out under permits issued by the relevant regulator. These permits impose limits on all activities that could impact the environment, including emissions to air and water and the production and disposal of wastes. Formal statutory notices may be issued by EA, NRW and SEPA in relation to any environmental incidents. The EA also issues permits under the EU emissions trading scheme for carbon dioxide emissions and ensures industry compliance with such scheme. SSE's carbon emissions data is externally verified by a UK accreditation service.

Electricity and Gas Supply

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

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

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

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

customers which will require significant resource and investment to implement. SSE submitted a comprehensive response which fed into CMA's deliberations leading up to the Final Report which was published on 24 June 2016.

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

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

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

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

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

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

OFGEM is also refining plans on how it will take forward those remedies allocated to it by the CMA and is initiating consultations on the CMA's key recommendations.

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

On 29 July 2016, OFGEM announced that it was investigating whether SSE has complied with a number of requirements of its electricity and gas supply licences following concerns that SSE might not have been treating its customers fairly when switching them to PPMs. The investigation does not mean that a company has breached licence conditions or other obligations and SSE is cooperating fully with OFGEM.

Electricity Transmission

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

SHE Transmission has a duty under the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economical system of electricity transmission that facilitates competition in the supply and generation of electricity. SHE Transmission is regulated by the Authority. Under the licence, where it is reasonable to do so, SHE Transmission is under a statutory duty to offer terms to connect any customer that requests a connection within its area and to maintain that connection. SHE Transmission's licence may be terminated on 25 years' notice given by the Secretary of State for Energy and Climate Change (or any successor) (the "**Secretary of State**") and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

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

Under the RIIO-T1 price control model, OFGEM can approve large capital investments proposed by SHE Transmission. During 2014, OFGEM approved all three projects submitted by SHE Transmission: Caithness Moray, Kintyre Hunterston and Beaully Mossford overhead line. During 2015, along with the legacy Beaully Blackhillock Kintore project, SHE Transmission completed both Kintyre Hunterston and Beaully Mossford overhead line projects on time and to budget. Caithness Moray is on course to be commissioned by the end of 2018.

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

OFGEM is currently undertaking a review of the Great Britain regulated transmission framework. This was initiated as the Integrated Transmission Planning and Regulation project (ITPR), now being run as Extending Competition in Transmission (ECIT). One option under consideration in this project is the introduction of competition in the construction and ownership of onshore transmission. OFGEM's intention is to be able to run competitive tenders for new, high value and separable, transmission infrastructure build from mid to late 2017. The introduction of competition will bring with it the possibility of competition in the SHE Transmission area, but also the opportunity for SHE Transmission to compete for projects outside of its own network area.

Electricity distribution

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

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

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

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

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

Gas distribution

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

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

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

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 taxation obligations with respect to the Securities and are of a general nature based on current United Kingdom tax law as applied in England and Wales, and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs), and are not intended to be exhaustive. The comments below do not deal with any other transaction implications of acquiring, holding or disposing of the 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

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

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

In all other cases, interest will generally be paid by the Issuer under deduction of United Kingdom income tax at the basic rate, subject to the availability of other reliefs or exceptions or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. If any amount must be withheld by the Issuer on account of United Kingdom tax from payments of interest on the Securities then such Issuer will, subject to the provisions of Condition 12 (*Taxation*) of the relevant Securities, pay such additional amounts as will result in the Holders or Couponholders receiving an amount equal to that which they would have received had no such withholding been required.

Interest on the Securities constitutes UK source income for UK tax purposes and, as such, may be subject to UK income tax by direct assessment even where paid without withholding.

The provisions relating to additional amounts referred to in Condition 12 (*Taxation*) of the Terms and Conditions of the relevant 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 UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty.

2. Other Rules Relating to United Kingdom Withholding Tax

The Securities may in certain circumstances on occurrence of a Special Event be redeemed at their Make Whole Redemption Price or at 101 per cent. of their principal amount. Any such element of premium should not constitute a payment of interest for withholding tax purposes.

3. Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax should be payable on issue of the Securities or on a transfer of the Securities.

4. **Proposed Financial Transaction Tax (“FTT”)**

On 14 February 2013, the European Commission published a proposal (the “**European Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated it will not participate. The European Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances.

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

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Securities are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

BNP Paribas (“**BNPP**”), Morgan Stanley & Co. International plc (“**Morgan Stanley**” and, together with BNPP, the “**Joint Global Co-ordinators and Joint Bookrunners**”), Barclays Bank PLC, Lloyds Bank plc, RBC Europe Limited (together with the Joint Global Co-ordinators and Joint Bookrunners, the “**Joint Bookrunners**”), Credit Suisse Securities (Europe) Limited, MUFG Securities EMEA plc and National Australia Bank Limited (ABN 12 004 044 937) (together with the Joint Bookrunners, the “**Bookrunners**”) have, pursuant to a Subscription Agreement dated 14 March 2017, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Dollar Securities at 100 per cent. of their principal amount and the Sterling Securities at 99.855 per cent. of their principal amount. The Issuer has agreed to pay to the Bookrunners a combined management and underwriting commission. In addition, the Issuer has agreed to reimburse the Bookrunners for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Bookrunners 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 Bookrunner 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 any 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 relevant Securities, an offer or sale of such 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 Bookrunner 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 Bookrunner 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.

Republic of Italy

The offering of the Securities has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Bookrunner has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Prospectus or any other document relating to the Securities in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (the “**Issuers Regulation**”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Prospectus or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”) and the CONSOB Regulation No. 16190 of 29 October 2007, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

General

Neither the Issuer nor any Bookrunner has made any representation that any action will be taken in any jurisdiction by the Bookrunners 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 Bookrunners 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 Bookrunner 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. 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 16 March 2017, subject only to the issue of the relevant Temporary Global Security.
2. The issue of the Securities was authorised by resolutions of the Board of Directors passed on 8 November 2016.
3. The telephone number of the Issuer is +44 1738 456000.
4. There has been no significant change in the financial or trading position of the Issuer or of the SSE Group since 30 September 2016 (the end of the last financial period for which interim financial information has been published). There has been no material adverse change in the prospects of the Issuer since 31 March 2016 (the date of the Issuer's last published audited financial statements).
5. There are no 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 have had in the recent past, significant effects on the Issuer's and/or the SSE Group's financial position or profitability.
6. 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".
7. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In respect of the Dollar Securities, the International Securities Identification Number ("ISIN") is XS1572343744 and the Common Code is 157234374. In respect of the Sterling Securities, the ISIN is XS1572349865 and the Common Code is 157234986.

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.

8. For the life of this Prospectus, copies of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for physical 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 2015 and 31 March 2016, respectively;
 - (c) the unaudited consolidated financial statements of the Issuer for the six months ended 30 September 2016;
 - (d) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus; and
 - (e) the Trust Deeds dated the Issue Date between the Issuer and the Trustee relating to each Tranche and the Paying Agency Agreements dated the Issue Date between the Issuer, the Trustee and the agents named therein relating to each Tranche.

In addition, a copy of this Prospectus will also be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

9. KPMG LLP, 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 2015 and 31 March 2016, respectively.
10. For the period from (and including) the relevant Issue Date to (but excluding) the relevant First Reset Date, the yield on the Dollar Securities will be 4.750 per cent. per annum and the yield on the Sterling Securities will be 3.658 per cent. per annum. Each such yield is calculated at the Issue Date on the basis of the relevant Issue Price. It is not an indication of future yield.
11. The expenses related to the admission of the Securities to the Official List and to trading on the Market are estimated to amount to £4,950.
12. Certain of the Bookrunners 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 its affiliates in the ordinary course of business. Certain of the Bookrunners and their affiliates may have positions, deal or make markets in the Securities, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

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

13. Save for the fees payable to the Bookrunners, the Trustee and the Paying Agents, so far as the Issuer is aware, no person, natural or legal, involved in the issue of any Securities has an interest that is material to the issue of the relevant Securities.

REGISTERED OFFICE OF THE ISSUER

SSE plc
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ
United Kingdom

JOINT GLOBAL CO-ORDINATORS AND JOINT BOOKRUNNERS

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

JOINT BOOKRUNNERS

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

Lloyds Bank plc
10 Gresham Street
London EC2V 7AE
United Kingdom

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF
United Kingdom

PASSIVE BOOKRUNNERS

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ
United Kingdom

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

National Australia Bank Limited (ABN 12 004 044 937)
88 Wood Street
London EC2V 7QQ
United Kingdom

AUDITORS OF THE ISSUER

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG
United Kingdom

TRUSTEE

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

PRINCIPAL PAYING AGENT AND AGENT BANK

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL
United Kingdom

PAYING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg

LEGAL ADVISERS

To the Issuer as to English law

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

To the Issuer as to Scottish law

CMS Cameron McKenna LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN
United Kingdom

To the Bookrunners and the Trustee as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom