

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the *Prospectus*) and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access. You acknowledge that this electronic transmission and the delivery of the Prospectus is confidential and intended only for you and **you agree you will not forward, reproduce or publish this electronic transmission or the Prospectus to any other person.**

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE *SECURITIES ACT*), AND INCLUDE SECURITIES IN BEARER FORM THAT ARE SUBJECT TO US TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, SECURITIES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO US PERSONS. ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your representation: The Prospectus is delivered to you at your request and on the basis that you have confirmed to Barclays Bank PLC, Morgan Stanley & Co. International plc, Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas, Lloyds Bank plc, Banco Santander, S.A., Bank of China Limited, London Branch, Credit Suisse Securities (Europe) Limited, Merrill Lynch International, Mitsubishi UFJ Securities International plc, National Australia Bank Limited ABN 12 004 044 937, RBC Europe Limited and The Royal Bank of Scotland plc (the *Bookrunners*) and SSE plc (the *Issuer*) that you are located outside the United States and not a U.S. person (as defined in Regulation S under the Securities Act), and you are a person into whose possession this Prospectus may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

This Prospectus has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Bookrunners nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version. By accessing the linked Prospectus, you consent to receiving it in electronic form.

You are reminded that you have accessed the Prospectus on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this Prospectus, electronically or otherwise, to any other person.

Neither this electronic transmission nor the Prospectus constitutes or contains any offer to sell or invitation to subscribe or make commitments for or in respect of any securities in any jurisdiction where such an offer or invitation would be unlawful.

Neither the Bookrunners nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this Prospectus or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with the Issuer or the offer. The Bookrunners and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise which they might otherwise have in respect of such Prospectus or any such statement. No representation or warranty express or implied, is made by any of the Bookrunners or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this Prospectus.

The Bookrunners are acting exclusively for the Issuer and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this Prospectus) as their client in relation to the offer and will not be responsible to anyone other than the Issuer for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



SSE plc

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

€600,000,000 Capital Securities

£750,000,000 Capital Securities

Issue Price: 99.998 per cent. in respect of the Euro Securities

99.763 per cent. in respect of the Sterling Securities

The €600,000,000 Capital Securities (the *Euro Securities*) and the £750,000,000 Capital Securities (the *Sterling Securities*) and, together with the Euro Securities, the *Securities* and each, a *Tranche* will be issued by SSE plc (the *Issuer*) on 10 March 2015 (the *Issue Date*). The Euro Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 1 April 2021 (the *Euro Securities First Reset Date*) at a rate of 2.375 per cent. per annum, payable annually in arrear on 1 April in each year, except that the first payment of interest, to be made on 1 April 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 April 2016 and will amount to €25,212 per €1,000 in principal amount of the Euro Securities. Thereafter, unless previously redeemed, the Euro Securities will bear interest from (and including) the First Reset Date (as defined below) to (but excluding) 1 April 2026 at a rate per annum which shall be 1.989 per cent. above the 5 year Swap Rate (as defined in the “*Terms and Conditions of the Euro Securities*” (the *Euro Conditions*)) for the relevant Reset Period (as defined in the Euro Conditions), payable annually in arrear on 1 April in each year. From (and including) 1 April 2026 to (but excluding) 1 April 2041 the Euro Securities will bear interest at a rate per annum which shall be 2.239 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 April in each year. From (and including) 1 April 2041, the Euro Securities will bear interest at a rate per annum which shall be 2.989 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 April in each year, all as more particularly described in “*Terms and Conditions of the Euro Securities—Interest Payments*”. The Sterling Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 10 September 2020 (the *Sterling Securities First Reset Date*) at a rate of 3.875 per cent. per annum, payable annually in arrear on 10 September in each year, except that the first payment of interest, to be made on 10 September 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 10 September 2016 and will amount to £58.31 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 Reset Date to (but excluding) 10 September 2025 at a rate per annum which shall be the annualised equivalent of 2.342 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 Euro Conditions, the *Conditions*)) for the relevant Reset Period (as defined in the Sterling Conditions), payable annually in arrear on 10 September in each year. From (and including) 10 September 2025 to (but excluding) 10 September 2040, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 2.592 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 10 September in each year. From (and including) 10 September 2040, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.342 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 10 September in each year, all as more particularly described in “*Terms and Conditions of the Sterling Securities—Interest Payments*”. References herein to the *First Reset Date* shall be construed as the Euro Securities First Reset Date or the Sterling Securities First Reset Date, as appropriate.

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 Euro 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 Euro 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 Euro Securities—Optional Interest Deferral—Mandatory Settlement*” and “*Terms and Conditions of the Sterling Securities—Optional Interest Deferral—Mandatory Settlement*”.

The Securities will be perpetual securities in respect of which there is no fixed redemption date, but each Tranche shall be redeemable (at the option of the Issuer) in whole but not in part on any Reset Date (as defined in the relevant Conditions), at the principal amount of the relevant Tranche, together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest in each case in respect of such Tranche. In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Substantial Repurchase Event, a General Tax Event, a Withholding Tax Event or an Implementation 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 Euro 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 General Tax Event, an Implementation 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 Euro Securities—Status*”, “*Terms and Conditions of the Euro 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 Euro 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 depositary on behalf of Euroclear Bank S.A./N.V. (*Euroclear*) and Clearstream Banking, société anonyme (*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 20 April 2015, 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) €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000 in respect of the Euro 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 €199,000 in respect of the Euro 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

Barclays

Morgan Stanley

JOINT BOOKRUNNERS

Banco Bilbao Vizcaya Argentaria, S.A.

BNP PARIBAS

Lloyds Bank

PASSIVE BOOKRUNNERS

Bank of China

BofA Merrill Lynch

Credit Suisse

MUFG

National Australia Bank Limited

RBC Capital Markets

Santander Global Banking & Markets

The Royal Bank of Scotland

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. 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 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.

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 2013, together with the independent audit report thereon, which are included on pages 104 to 183 of the 2013 Annual Report of the Issuer, available for inspection and viewing on the website of the Issuer at the following address: http://sse.com/media/108594/SSEplcAnnualReport2013_optimised.pdf;
- (ii) the audited consolidated financial statements of the Issuer for the financial year ended 31 March 2014, together with the independent audit report thereon, which are included on pages 98 to 180 of the 2014 Annual Report of the Issuer, available for inspection and viewing on the website of the Issuer at the following address: <http://sse.com/media/241200/2014AnnualReport.pdf>; and
- (iii) the unaudited consolidated financial statements of the Issuer for the six months ended 30 September 2014, together with the independent review report thereon, which are included on pages 51 to 80 of the 2014/2015 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/274910/SSE-Interim-results-for-6-months-to-30-September-14.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.

TABLE OF CONTENTS

	PAGE
RISK FACTORS.....	6
OVERVIEW	17
TERMS AND CONDITIONS OF THE EURO SECURITIES.....	25
TERMS AND CONDITIONS OF THE STERLING SECURITIES.....	46
SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM	68
DESCRIPTION OF THE ISSUER.....	71
USE OF PROCEEDS	94
TAXATION.....	95
SUBSCRIPTION AND SALE.....	98
GENERAL INFORMATION	101

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 Euro 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

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

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

Regulatory Risk

The electricity and gas distribution and electricity transmission 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, 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 on the operations and financial position of the SSE Group. Additionally, failure to operate the networks properly could lead to compensation payments or penalties, as could any failure to make capital expenditure in line with agreed programmes that in turn leads to deterioration of the networks.

In particular, there can be no assurance that future 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.

OFGEM completed 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.

OFGEM's retail market reforms are now fully in force with new 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. The CMA is now carrying out its own independent investigation to see whether there are any features of the energy market which prevent, restrict or distort competition and, if it finds any adverse effects on competition, determine what action might be taken to remedy them. The CMA's investigation, which is overseen by an independent panel, will conclude with the publication of its final report by 25 December 2015.

These changes and the consequence of a CMA review could have a significant impact on the Issuer and/or the SSE Group.

Plant and Network Performance

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

Commodity Price Risk, Procurement Risk and Security of Supply

In order to support its core business activities, it is necessary for the SSE Group to purchase significant quantities of fuel, commodities, resources and other products and services. Although it routinely enters into long-term contracts to protect its commercial position, significant price 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.

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

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

Political, Legal and Compliance Risks

The SSE Group must at all times fully comply with its obligations in respect of all legal, regulatory, environmental and corporate governance requirements. Failure to do so may result in adverse publicity, fines, loss of licence or legal proceedings being commenced against members of the SSE Group. Additionally future changes in law at EU level and in the jurisdiction in which the Issuer operates and/or political direction could adversely impact on the SSE Group's market position, financial position or competitiveness. An example is the ongoing development of European Electricity and Gas Network Codes to implement the internal energy market.

The UK government has legislated for a major process of electricity market reform in Great Britain through the Energy Act 2013 (the *Energy Act*). 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.

Quality Customer Service

A 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

It is the responsibility of the Board of Directors to consider carefully strategic issues including capital investment in merger projects, acquisitions, disposals, investments, market positioning, climate change, sustainable development and new technologies. Failure to do so 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 SSE Group earnings, whilst supply interruptions could result in adverse publicity, negative customer perception and possible regulatory action.

Reliance on IT Systems

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

Nothing in this risk factor should be taken as implying that either 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.

Pension Funds Risk

The SSE Group is directly responsible for two defined benefit pension schemes — the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme. These schemes have been closed to new employees since 1999, and new recruits since then have been offered instead defined contribution pension arrangements. Adverse changes in the valuation of assets and/or liabilities in the defined benefit schemes may occur due to both market movements and changes in the assumptions used to calculate the funding levels of such schemes. This in turn may result in the Issuer 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 Issuer 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 Issuer 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 SSE Group's strategy.

Capital Investment in Major Projects

In March 2014, the Issuer said that it expects that its investment and capital expenditure will total around £5.5 billion (net of disposal proceeds received) over the four years to March 2018. Looking across its Networks, Retail and Wholesale businesses (each as defined below), the Issuer expects that its capital and expenditure will total just under £1.6 billion (gross) in 2014/15 and around £5.5 billion (net) over the next four years to March 2018. These expenditures include: (i) economically-regulated expenditure on electricity transmission networks; (ii) economically-regulated electricity distribution expenditure plus essential maintenance of other assets; and (iii) expenditure that is already committed to development of new assets (including around 575 MW (construction and pre-construction) of onshore wind farm capacity) and the enhancement and deployment of systems to improve customer service. In addition to its own capital and investment expenditure programme, the Issuer effectively has a 50 per cent. interest in Scotia Gas Networks Limited (*SGN*). By virtue of this equity interest, the Issuer is participating in *SGN*'s capital and replacement expenditure and making a significant investment in regulated gas networks. These capital investments could potentially weaken the SSE Group's consolidated financial profile in the shorter term, as capital expenditure on major projects is expected to exceed revenues generated by new operational assets in the business in the first few years following expenditure. Failure to deliver quality projects on budget could adversely affect SSE Group's operations. SSE Group continues to enter into joint venture arrangements for large projects including renewable generation, gas storage, thermal generation and oil and gas projects. A failure to manage effectively the joint venture assets could result in reputational damage or destruction in value.

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 with approximately 50 per cent. of Russian gas imported via Ukraine in 2013. 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. A change of government in Ukraine, opposed by the Russian Federation, a subsequent referendum in Crimea and annexation of this territory by the Russian Federation, created uncertainty about the security of gas supply in Europe. Gas payment disputes arising between state-controlled companies in the Russian Federation and Ukraine poses 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 Ukraine. This in turn would jeopardise gas imports to the rest of Europe and would put pressure on European gas prices. As a result of the increased interconnection of gas markets, SSE Group is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, the Issuer operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, the Issuer's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, the Issuer's 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 perpetual securities

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

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 any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a General Tax Event, a Substantial Repurchase Event, an Implementation 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.

Certain changes are expected to be made to the taxation of corporate debt and derivative contracts following (a) the consultation announced by HM Revenue & Customs on 6 June 2013 in its document entitled “Modernising the taxation of corporate debt and derivative contracts”, (b) the technical note on the proposed reforms to the taxation of corporate debt and derivative contracts published by HM Revenue & Customs on 8 April 2014, and (c) the draft legislation published on 10 December 2014 containing certain proposed amendments to the loan relationships and derivative contracts regime. One of the proposed amendments would result in amounts recognised in equity or shareholder funds in respect of loan relationships ceasing to be deductible. However the draft legislation indicates that this amendment will not apply to instruments issued prior to accounting periods on or after 1 January 2016 (and as such is not expected to apply to the Securities). Nonetheless, there currently remains some uncertainty as to whether the Issuer’s entitlement to claim a deduction in respect of its obligation to make Interest Payments on the relevant Securities in computing its taxation liabilities in the United Kingdom could cease or be materially reduced as a result of (a), (b) or (c) above. Accordingly, an Implementation Event shall occur in respect of the relevant Securities if the Issuer ceases to be able to claim such a deduction (or such entitlement is materially reduced) and such event results or derives from (a), (b) or (c) above.

Furthermore, if an Accounting Event, a Capital Event, a General Tax Event, an Implementation 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 *Holder*s) 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.

Holder s 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.

Integral multiples of less than the specified denomination

The denominations of the Euro Securities are €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000. 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 €100,000 or, as the case may be, £100,000, that are not integral multiples of €100,000 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 €100,000 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 €100,000 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 Euro Securities—Status*", "*Terms and Conditions of the Euro 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 Euro 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

The Conditions will provide that the Securities will be perpetual securities and there is, therefore, no obligation on the Issuer to repay principal on any given date. In addition, payments of interest on the Securities may be deferred in accordance with Condition 5(a) 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 General Tax Event, an Implementation Event or a Withholding Tax Event and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 of the relevant Securities.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income (the ***Directive*** or ***Savings Directive***), each EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest (and similar income) paid or secured by a person established within its jurisdiction to (or for the benefit of) an individual resident or certain limited types of entity established in that other EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted a Directive (the ***Amending Directive***) which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The Directive will also apply a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded

as the beneficial owner of the payment for the purpose of the Directive. This approach may in some cases apply where the person, entity or legal arrangement is established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive). The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system (or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system) and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

FATCA Withholding

Whilst the Securities of any Tranche are in global form and held within Euroclear and Clearstream, Luxembourg (together, the *ICSDs*), in all but the most remote circumstances, it is not expected that FATCA (as defined in “*Taxation—FATCA Withholding*”) will affect the amount of any payment received by the *ICSDs* (see “*Taxation—FATCA Withholding*”). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payments to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer’s obligations under the Securities are discharged once it has paid the common depository for the *ICSDs* (as bearer of the Securities) and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the *ICSDs* and custodians or intermediaries. Please see “*Taxation—FATCA Withholding*” for more information on this legislation.

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 Euro Securities in euro 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 euro or, as the case may be, sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro 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 euro 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 Euro 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 Euro 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	€600,000,000 of Euro Securities and £750,000,000 of Sterling Securities.
Issue Date	10 March 2015.
No fixed maturity	The Securities will be perpetual securities in respect of which there is no fixed redemption date.
Interest	<p>The Euro Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 1 April 2021 (the <i>Euro Securities First Reset Date</i>) at a rate of 2.375 per cent. per annum, payable annually in arrear on 1 April in each year, except that the first payment of interest, to be made on 1 April 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 April 2016 and will amount to €25.212 per €1,000 in principal amount of the Euro Securities. Thereafter, unless previously redeemed, the Euro Securities will bear interest from (and including) the First Reset Date (as defined below) to (but excluding) 1 April 2026 at a rate per annum which shall be 1.989 per cent. above the 5 year Swap Rate (as defined in the Euro Conditions) for the relevant Reset Period (as defined in the Euro Conditions), payable annually in arrear on 1 April in each year. From (and including) 1 April 2026 to (but excluding) 1 April 2041 the Euro Securities will bear interest at a rate per annum which shall be 2.239 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 April in each year. From (and including) 1 April 2041, the Euro Securities will bear interest at a rate per annum which shall be 2.989 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 1 April in each year, all as more particularly described in “<i>Terms and Conditions of the Euro Securities—Interest Payments</i>”.</p> <p>The Sterling Securities will bear interest on their principal amount from (and including) the Issue Date to (but excluding) 10 September 2020 (the <i>Sterling Securities First Reset Date</i>) at a rate of 3.875 per cent. per annum, payable annually in</p>

arrear on 10 September in each year, except that the first payment of interest, to be made on 10 September 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 10 September 2016 and will amount to £58.31 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 Reset Date to (but excluding) 10 September 2025 at a rate per annum which shall be the annualised equivalent of 2.342 per cent. above the 5 year Swap Rate (as defined in the Sterling Conditions) for the relevant Reset Period (as defined in the Sterling Conditions), payable annually in arrear on 10 September in each year. From (and including) 10 September 2025 to (but excluding) 10 September 2040, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 2.592 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 10 September in each year. From (and including) 10 September 2040, the Sterling Securities will bear interest at a rate per annum which shall be the annualised equivalent of 3.342 per cent. above the 5 year Swap Rate for the relevant Reset Period payable annually in arrear on 10 September in each year, all as more particularly described in “*Terms and Conditions of the Sterling Securities—Interest Payments*”.

References herein to the **First Reset Date** shall be construed as the Euro Securities First Reset Date or the Sterling Securities First Reset Date, as appropriate.

Issue Price

99.998 per cent. in respect of the Euro Securities.

99.763 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 relevant Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest in 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, General 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 an Implementation Event where the relevant date fixed for redemption falls prior to the relevant First Reset Date, their Make Whole Redemption Price; or
- (iii) in the case of a Capital Event, General Tax Event, an Implementation Event or Accounting Event where the relevant date fixed for redemption falls on or after the relevant First Reset Date, their principal amount; or
- (iv) 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 Euro 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 General Tax Event, a Withholding Tax Event or an Implementation 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 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 Euro 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 1 April 2041 in respect of the Euro Securities and on 10 September 2040 in respect of the Sterling Securities, in the event of:

- (i) an early redemption of the relevant Securities pursuant to Conditions 6(b), 6(f) or 6(g) 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 depositary 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 20 April 2015, 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) €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000 in respect of the Euro 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 “ <i>Summary of Provisions relating to the Securities while in Global Form</i> ”. No definitive Securities will be issued with a denomination above €199,000 in respect of the Euro Securities and above £199,000 in respect of the Sterling Securities.
Denominations	<p>€100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000 in respect of the Euro Securities.</p> <p>£100,000 and integral multiples of £1,000 in excess thereof, up to and including £199,000 in respect of the Sterling Securities.</p>
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 “*Subscription and Sale*”.

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 “*Risk Factors*” in conjunction with the other information contained or incorporated by reference in this Prospectus.

ISIN

XS1196713298 in respect of the Euro Securities.

XS1196714429 in respect of the Sterling Securities.

Common Code

119671329 in respect of the Euro Securities.

119671442 in respect of the Sterling Securities.

TERMS AND CONDITIONS OF THE EURO 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 €600,000,000 Capital Securities (the *Securities*, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Securities) of SSE plc (the *Issuer*) was authorised by resolutions of the board of directors of the Issuer (the *Board of Directors*) passed on 19 May 2014 and 17 February 2015. The Securities are constituted by a trust deed (the *Trust Deed*) dated 10 March 2015 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 10 March 2015 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 €99,000, each with Coupons and one Talon attached on issue. No definitive Securities will be issued with a denomination above €99,000. 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) 10 March 2015 (the ***Issue Date***) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities annually in arrear on each Interest Payment Date as provided in this Condition 4, except that the first payment of interest, to be made on 1 April 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 April 2016.

(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 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 2.375 per cent. per annum (the **First Fixed Interest Rate**), payable annually in arrear on the Interest Payment Date in each year, except that the first payment of interest, to be made on 1 April 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 April 2016 and will amount to €5.212 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:

Subsequent Fixed Interest Rate = 5 year Swap Rate + Margin

all as determined by the Agent Bank and where,

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

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

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

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

Margin means in respect of (i) the Reset Period ending on (but excluding) 1 April 2026, 1.989 per cent.; (ii) each Reset Period which falls in the period commencing on (and including) 1 April 2026 and ending on (but excluding) 1 April 2041, 2.239 per cent.; and (iii) each Reset Period which falls on or after 1 April 2041, 2.989 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 to be the Interest Rate as at the last preceding Reset Date or, in the case of the first Reset Interest Determination Date, the First Fixed Interest Rate.

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. (Central European time) on each Reset Interest Determination Date, determine the Subsequent Fixed Interest Rate in respect of each Interest Period falling within the relevant Reset Period.

(f) Publication of Subsequent Fixed Interest Rates

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

(g) Agent Bank and Reset Reference Banks

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

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank 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) No Fixed Redemption Date

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3(a)) only have the right to repay them in accordance with the following provisions of this Condition 6.

(b) Issuer's Call Option

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. 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 General Tax Event, a Withholding Tax Event or an Implementation 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 General Tax Event where such redemption occurs prior to the First Reset Date) or (ii) their Make Whole Redemption Price (in the case of an Implementation Event where such redemption occurs prior to the First Reset Date) or (iii) their principal amount (in the case of a General Tax Event or an Implementation 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 General Tax Event or a Withholding Tax Event (each a **Substitution or Variation Event**) or an Implementation Event has occurred and is continuing, then the Issuer may, subject to Condition 8 (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 7 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 7 and subject to the receipt by it of the certificate of the directors of the Issuer referred to in Condition 8 below) agree to such substitution or variation.

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

The Trustee 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. Notwithstanding any other provision hereof, if any such substitution or

variation in accordance with the foregoing provisions following a Substitution or Variation Event gives rise to an Implementation Event, the Issuer shall not be entitled (as a result of such Implementation Event) to redeem the Qualifying Securities pursuant to Condition 6(c).

Notwithstanding any other provision hereof, if any such substitution or variation in accordance with the foregoing provisions following an Implementation Event gives rise to a Substitution or Variation Event, the Issuer shall not be entitled (as a result of such Substitution or Variation Event) to redeem the Qualifying Securities pursuant to Conditions 6(c), 6(d) or 6(e).

Any such substitution or variation in accordance with the foregoing provisions following a Substitution or Variation Event or an Implementation 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,

provided that the inclusion of any feature in such securities which contains a term for its mandatory repayment on a specified date shall be deemed not to be materially less favourable to Holders than the terms of the Securities; 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. The Trustee may rely absolutely upon and shall be entitled to accept such directors' certificate without any liability to any person for so doing and without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders and the Couponholders.

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

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

9 Purchases and Cancellation

(a) Purchases

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto. The Securities so purchased, while held by or on behalf of the Issuer 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 euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System.
- (ii) Each Security should be presented for redemption together with all unmatured Coupons relating to it in respect of the Interest Periods which fall prior to the First Reset Date, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than five years after the due date for the relevant payment of principal.
- (iii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security in respect of any Interest Period commencing on or after the First Reset Date (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iv) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 13).

(b) Payments Subject to Fiscal Laws

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

(c) Payments on Business Days

A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, 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; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union or making any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

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

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;
- (b) at all times maintain Paying Agents having specified offices in at least two major European cities approved by the Trustee;

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

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 17. If any of the Agent Bank or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, the Determination Agent 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 10 March 2015, but not otherwise, the obligations of the Issuer under the Securities must not or may no longer be recorded as “equity” in the next following audited annual consolidated financial statements of the Issuer prepared in accordance with IFRS or any other accounting standards that the Issuer may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with United Kingdom company law;

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 the TARGET System is operating;

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

a **Capital Event** shall be deemed to occur if the Issuer has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency of a change in its assessment criteria which becomes effective on or after 10 March 2015 (or, if later, effective after the date on which the Securities are assigned

“equity credit” by a Rating Agency for the first time) (due to a change in the rating previously assigned to the Issuer or otherwise) 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); 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;

Determination Agent means a financial institution of international standing selected by the Issuer and approved by the Trustee;

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

euro or € means the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;

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

First Reset Date means 1 April 2021;

General Tax Event means a Tax Event which is not an Implementation Event;

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

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

Implementation Event means an event falling within paragraph (i) of the definition of Tax Event which in the opinion of tax advisers of international repute appointed by the Issuer results or derives from (a) the consultation announced by HM Revenue & Customs on 6 June 2013 in its document entitled “Modernising the taxation of corporate debt and derivative contracts”, (b) the technical note on the proposed reforms to the taxation of corporate debt and derivative contracts published by HM Revenue & Customs on 8 April 2014, and/or (c) the draft legislation published on 10 December 2014 containing the proposed amendments to the loan relationships and derivative contracts regime;

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

Interest Payment Date means 1 April in each year, commencing on (and including) 1 April 2016;

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;

Make Whole Redemption Price means, in respect of each Security, the higher of (a) the principal amount of such Security or (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the yield to maturity on the Security on the Reference Date (assuming for this purpose that the Securities are to be redeemed on the First Reset Date at their principal amount) is equal to the yield to maturity (determined by reference to the middle market price) at 11.00 hours (Central European time) on the Reference Date of the Reference Bond plus 0.50 per cent., all as determined by the Determination Agent.

For the purposes of the definition of Make Whole Redemption Price:

Reference Bond means the 2.500 per cent. German government bond (known as “bund”) due January 2021, or if such bond is no longer in issue such other German government bond with a maturity date as near as possible

to the First Reset Date, as the Determination Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 2.500 per cent. German government bond due January 2021;

Reference Date means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 6(c) by the Issuer; and

Reference Market Makers means three brokers or market makers of German government bonds selected by the Determination Agent and approved for this purpose by the Trustee or such other three persons operating in the German government bond market as are selected by the Determination Agent in consultation with the Issuer and approved for this purpose by the Trustee;

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 €500,000,000 Capital Securities (ISIN: XS0541656509), the Issuer's £750,000,000 Capital Securities (ISIN: XS0540658688), the Issuer's U.S.\$700,000,000 Capital Securities (ISIN XS0829351690) and the Issuer's €750,000,000 Capital Securities (ISIN XS0829343598);

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 General Tax Event, a Withholding Tax Event or an Implementation Event or any combination of the foregoing;

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

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

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

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;

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

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

- (i) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (ii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 10 March 2015 or any similar system or systems having like effect as may from time to time exist);

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

Tax Law Change means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 10 March 2015

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 1 April 2041, in the event of:

- (i) an early redemption of the Securities pursuant to Conditions 6(b), 6(f) or 6(g), 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 £750,000,000 Capital Securities (the **Securities**, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Securities) of SSE plc (the **Issuer**) was authorised by resolutions of the board of directors of the Issuer (the **Board of Directors**) passed on 19 May 2014 and 17 February 2015. The Securities are constituted by a trust deed (the **Trust Deed**) dated 10 March 2015 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 10 March 2015 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) 10 March 2015 (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 10 September 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 10 September 2016.

(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 3.875 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 10 September 2016, will be in respect of the period from (and including) the Issue Date to (but excluding) 10 September 2016 and will amount to £58.31 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 "ISDAFIX4" 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**);

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

Reset Reference Bank Rate means the percentage rate determined on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the **Reset Reference Banks**) to the Agent Bank at approximately 11:00 a.m. (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) 10 September 2025, 2.342 per cent.; (ii) each Reset Period which falls in the period commencing on (and including) 10 September 2025 and ending on (but excluding) 10 September 2040, 2.592 per cent.; and (iii) each Reset Period which falls on or after 10 September 2040, 3.342 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 to be the Interest Rate as at the last preceding Reset Date or, in the case of the first Reset Interest Determination Date, the First Fixed Interest Rate.

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) No Fixed Redemption Date

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3(a)) only have the right to repay them in accordance with the following provisions of this Condition 6.

(b) Issuer's Call Option

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on any Reset Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. 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 General Tax Event, a Withholding Tax Event or an Implementation 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 General Tax Event where such redemption occurs prior to the First Reset Date) or (ii) their Make Whole Redemption Price (in the case of an Implementation Event where such redemption occurs prior to the First Reset Date) or (iii) their principal amount (in the case of a General Tax Event or an Implementation 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 General Tax Event or a Withholding Tax Event (each a **Substitution or Variation Event**) or an Implementation Event has occurred and is continuing, then the Issuer may, subject to Condition 8 (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 7 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 7 and subject to the receipt by it of the certificate of the directors of the Issuer referred to in Condition 8 below) agree to such substitution or variation.

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

The Trustee 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. Notwithstanding any other provision hereof, if any such substitution or variation in accordance with the foregoing provisions following a Substitution or Variation Event gives rise to an Implementation Event, the Issuer shall not be entitled (as a result of such Implementation Event) to redeem the Qualifying Securities pursuant to Condition 6(c).

Notwithstanding any other provision hereof, if any such substitution or variation in accordance with the foregoing provisions following an Implementation Event gives rise to a Substitution or Variation Event, the Issuer shall not be entitled (as a result of such Substitution or Variation Event) to redeem the Qualifying Securities pursuant to Conditions 6(c), 6(d) or 6(e).

Any such substitution or variation in accordance with the foregoing provisions following a Substitution or Variation Event or an Implementation 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,

provided that the inclusion of any feature in such securities which contains a term for its mandatory repayment on a specified date shall be deemed not to be materially less favourable to Holders than the terms of the Securities; 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. The Trustee may rely absolutely upon and shall be entitled to accept such directors' certificate without any liability to any person for so doing and without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders and the Couponholders.

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

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

9 Purchases and Cancellation

(a) Purchases

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. In each case, purchases will be made together with all

unmatured Coupons and Talons appertaining thereto. The Securities so purchased, while held by or on behalf of the Issuer 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 unmaturing 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 unmaturing Coupons and all unexchanged Talons) to the Principal Paying Agent. Securities so surrendered shall be cancelled forthwith (together with all unmaturing 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 unmaturing 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 unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing 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, unmaturing 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 unmaturing Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iv) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 13).

(b) Payments Subject to Fiscal Laws

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

(c) *Payments on Business Days*

A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a 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; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union or making any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

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

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

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 17. If any of the Agent Bank or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, the Determination Agent 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 10 March 2015, but not otherwise, the obligations of the Issuer under the Securities must not or may no longer be recorded as “equity” in the next following audited annual consolidated financial statements of the Issuer prepared in accordance with IFRS or any other accounting standards that the Issuer may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with United Kingdom company law;

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 10 March 2015 (or, if later, effective after the date on which the Securities are assigned “equity credit” by a Rating Agency for the first time) (due to a change in the rating previously assigned to the Issuer or otherwise) 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); 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;

Determination Agent means a financial institution of international standing selected by the Issuer and approved by the Trustee;

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

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

First Reset Date means 10 September 2020;

General Tax Event means a Tax Event which is not an Implementation Event;

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

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

Implementation Event means an event falling within paragraph (i) of the definition of Tax Event which in the opinion of tax advisers of international repute appointed by the Issuer results or derives from (a) the consultation announced by HM Revenue & Customs on 6 June 2013 in its document entitled "Modernising the taxation of corporate debt and derivative contracts", (b) the technical note on the proposed reforms to the taxation of corporate debt and derivative contracts published by HM Revenue & Customs on 8 April 2014, and/or (c) the

draft legislation published on 10 December 2014 containing the proposed amendments to the loan relationships and derivative contracts regime;

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

Interest Payment Date means 10 September in each year, commencing on (and including) 10 September 2016;

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;

Make Whole Redemption Price means, in respect of each Security, the higher of (a) the principal amount of such Security or (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the Security on the Reference Date (assuming for this purpose that the Securities are to be redeemed on the First Reset Date at their principal amount) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 hours (London time) on the Reference Date of the Reference Bond plus 0.50 per cent., all as determined by the Determination Agent.

For the purposes of the definition of Make Whole Redemption Price:

Gross Redemption Yield means, with respect to a security, the gross redemption yield on such security (as calculated by the Determination Agent on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 4, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended) on an annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places));

Reference Bond means the 3.750 per cent. Treasury Stock due September 2020, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Reset Date, as the Determination Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 3.750 per cent. Treasury Stock due 2020;

Reference Date means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 6(c) by the Issuer; and

Reference Market Makers means three brokers or market makers of gilts selected by the Determination Agent and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Determination Agent in consultation with the Issuer and approved for this purpose by the Trustee;

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 €600,000,000 Capital Securities (ISIN: XS1196713298), the Issuer's €500,000,000 Capital Securities (ISIN: XS0541656509), the Issuer's £750,000,000 Capital Securities (ISIN: XS0540658688, the Issuer's U.S.\$700,000,000 Capital Securities (ISIN XS0829351690) and the Issuer's €750,000,000 Capital Securities (ISIN XS0829343598);

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 General Tax Event, a Withholding Tax Event or an Implementation Event or any combination of the foregoing;

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

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

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

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:

- (i) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (ii) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 10 March 2015 or any similar system or systems having like effect as may from time to time exist);

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

Tax Law Change means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 10 March 2015;

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 10 September 2040, in the event of:

- (i) an early redemption of the Securities pursuant to Conditions 6(b), 6(f) or 6(g), 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 20 April 2015, 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. Condition 12(d) and Condition 19(d) will apply to the definitive Securities only. For the purpose of any payments made in respect of a Global Security, Condition 10(c) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in London and (for the Euro Securities only) a day on which the TARGET system is operating.

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 €1,000 in principal amount of the Euro 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 a holding company and depends on the dividends, distributions and other payments from its subsidiaries to fund its operations.

Board of Directors

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

<u>Name</u>	<u>Title</u>
Lord Smith of Kelvin	Chairman (Non-Executive)
Alistair Phillips-Davies	Chief Executive
Gregor Alexander	Finance Director
Richard Gillingwater CBE	Deputy Chairman, Senior Independent Director
Jeremy Beeton CB	Non-Executive Director
Katie Bickerstaffe	Non-Executive Director
Peter Lynas	Non-Executive Director
Sue Bruce	Non-Executive Director

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

- **Lord Smith** of Kelvin is Chairman of UK Green Investment Bank plc, of Glasgow 2014 Limited, the organising committee for the Commonwealth Games. He serves as a non-executive Director of Standard Bank Group Ltd. in South Africa.
- **Alistair Phillips-Davies** is a Director of Energy UK.
- **Gregor Alexander** is Chairman of Scotia Gas Networks Ltd and a non-Executive Director of Stagecoach Group plc.
- **Richard Gillingwater** CBE is Chairman of Henderson Group plc. He is the Senior Independent Director of Hiscox Ltd and Helical Bar plc. Richard is also non-Executive Director of Wm Morrison Supermarkets plc and trustee of the British Council and a member of the advisory boards of the City UK and of the Association of Corporate Treasurers.
- **Jeremy Beeton** is a member of the Court of Strathclyde University and sits on the Advisory Boards of PwC and the Supervisory Board of Imtech. He is Chairman of Merseylink Ltd. and a non-Executive of A Proctor Group Ltd.

- **Katie Bickerstaffe** is Chief Executive – UK and Ireland Dixons Retail plc.
- **Peter Lynas** is Group Finance Director of BAE Systems plc and a member of the BAE Systems Inc Board in the US.
- **Sue Bruce** is Chief Executive, Edinburgh City Council.

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

Acquisitions and Disposals

Acquisition of the Energy Solutions Group

In July 2014, SSE completed the acquisition of The Energy Solutions Group Topco Limited (**ESG**), a Manchester-based designer and provider of energy management solutions, from Bridgepoint Development Capital, for an enterprise value and total cash consideration of £66 million, with the potential for a further £6 million purchase price increase if agreed targets are achieved.

ESG has traded for almost 20 years and employs around 340 people. It works with private and public sector customers to help improve their management of energy consumption. ESG also installs, maintains and supports building management systems and solutions used in connection with its primary activities. ESG can typically save its customers around 20 per cent. to 30 per cent. of their energy consumption.

The acquisition of ESG complements and enhances SSE's services in competitive markets for industrial and commercial customers. The existing management team at ESG will lead this business, which will continue to trade as The Energy Solutions Group. SSE believes that it will benefit from the commitment of the ESG management team and other employees to delivering effective energy management solutions for the benefit of customers and the environment.

Disposal of SSE Pipelines Ltd

In September 2014, SSE completed the sale of SSE Pipelines Ltd, one of the UK's largest licensed independent gas transporters, to a new fund, the Environmental Capital Fund (**ECF**) for a total consideration of £52.6 million. ECF is managed by Scottish Equity Partners LLP (**SEP**). No employees were transferred as part of the disposal. The sale is part of SSE's value programme of planned asset and business disposals announced in its Notification of Close Period Statement on 26 March 2014.

SSE Pipelines Ltd provides gas connection service to new residential and commercial developments throughout the UK. To date, it has set up over 130,000 connections.

SEP has raised a commitment of £135 million for the infrastructure fund to invest in UK-based clean energy projects, which SSE Pipelines Ltd will anchor. SSE will initially invest £13.8 million for a significant minority stake in the fund.

Disposal of Hampshire data centre

In October 2014, SSE agreed the sale of its Hampshire data centre to Specialist Computer Centres plc, for a total consideration in the region of £12 million, subject to capital adjustment and provision of transition services for a period of three months.

The facility was operated by SSE Enterprise Telecoms, an owner and operator of a UK-wide high performance, high availability fibre optic network. SSE Enterprise Telecoms provides leading edge carrier ethernet, internet and optical networking services to organisations whose businesses are critically dependent on digital

communication. The disposal allows SSE Enterprise Telecoms to focus on this fast growing networking business.

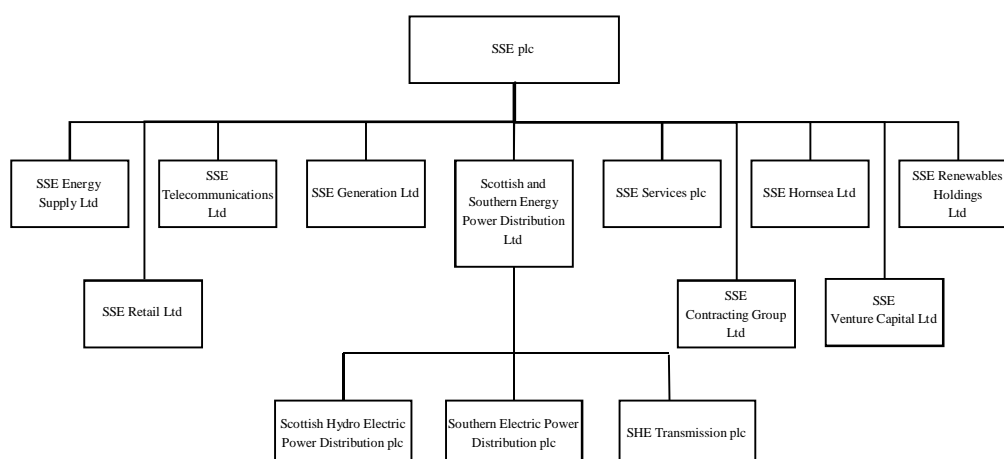
Disposal of Street lighting projects

In November 2014, SSE completed the sale of its 100 per cent. equity interest in the special purpose entities (*SPEs*) to Equitix Infrastructure 3 Limited (*Equitix*) for a total cash consideration of £97.5 million. The *SPEs* were established in England under the Private Finance Initiative (*PFI*). The *SPEs* have a 25 year agreement with the respective local authorities, under which the *SPEs* are responsible for the replacement, operation and maintenance of the street lighting assets operated by the respective authority. These operational responsibilities are being, and will continue to be, carried out by SSE Contracting Limited under a parallel 25-year sub-contract with the *SPEs* currently owned by Equitix.

The *SPEs* are funded through a mix of senior debt and equity. SSE believes that removal of this project-related senior debt, along with the payment of cash consideration by the purchaser, will have the immediate effect of reducing SSE's net debt by £326.4 million.

The SSE Group

SSE Group — Principal Subsidiaries as at 31 December 2014



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.

Networks

SSE has an ownership interest in five economically-regulated energy network companies: (i) Scottish Hydro Electric Transmission plc (100 per cent.) (*SHE Transmission*); (ii) Scottish Hydro Electric Power Distribution plc (100 per cent.) (*SHEPD*); (iii) Southern Electric Power Distribution plc (100 per cent.) (*SEPD*); (iv) Scotland Gas Networks plc (50 per cent.); and (v) Southern Gas Networks plc (50 per cent.). In this Prospectus, this business segment is referred to as *Networks*.

SSE estimates that the total Regulated Asset Value (*RAV*) of its economically-regulated ‘natural monopoly’ business was £7.077 million as at 30 September 2014, up £257 million from £6.820 million at 31 March 2014. As at 30 September 2014, the RAV comprised around: (i) £1,515 million for electricity transmission; (ii) £3,112 million for electricity distribution; and (iii) £2,450 million for gas distribution (i.e. 50 per cent. of SGN’s total RAV).

SSE believes that it is the only energy company in the UK to be involved in electricity transmission, electricity distribution and gas distribution. Through price controls, OFGEM sets the index-linked revenue the network companies can earn through charges levied on users to cover their costs and earn a return on their regulated assets. Although the process for setting price controls is complex and demanding, these lower-risk economically-regulated natural monopoly businesses provide a financial backbone and operational focus for SSE and balance its activities in the competitive Wholesale and Retail markets. They are core to SSE and its strategy in the short, medium, and long term.

Electricity Transmission

Since the implementation of the current RIIO T1 Price Control in April 2013, SHE Transmission’s capital investment has totalled £562 million. For 2014/15 as a whole, SHE Transmission expects to invest around £500 million, including some expenditure on the Caithness to Moray transmission link.

SHE Transmission is currently going through a period of rapid growth as a result of the requirement to connect large volumes of dispersed renewable energy generation. SSE has committed to a major programme of investment in electricity transmission infrastructure in its area to support the transition to lower carbon electricity generation, increase security of supply and promote economic growth.

Transmission investment for renewable generation (*TIRG*) is a funding mechanism that preceded strategic wider works (see below) to provide a framework for funding for large transmission projects. SHE Transmission has one project in construction under this mechanism – the replacement of the Beaully-Denny line between Beaully and Wharry Burn. Based on expenditure to date (approximately £570 million) and known issues, including the interface with SP Transmission’s section of the line, it is expected the final cost will not exceed £690 million.

Funding for four further projects was separately approved by OFGEM in 2010, of which three have been completed and one is ongoing. The ongoing project is Beaully to Blackhillock to Kintore, which involves the replacement of the 275kV conductors to allow an increase in the capacity of the network to transmit electricity. The works are well under way, with over half of the project already complete and anticipated energisation in 2015. OFGEM has given capital funding approval of £94 million (2013/14 prices) for this development.

SHE Transmission is now 18 months into the RIIO-T1 price control. Under this framework, OFGEM recognises the requirement for SHE Transmission to expand its network significantly over the period of the price control to facilitate the growth of renewable generation in the north of Scotland in order to meet national renewable energy targets. The exact timing and scale of growth is dynamic and is largely dependent on the requirements from existing and planned capacity for electricity generation.

To allow these projects to be delivered in this dynamic environment, OFGEM developed the strategic wider works mechanism whereby it considers on a case-by-case basis the evidence presented by SHE Transmission to

decide whether a project is needed. It then considers SHE Transmission's proposed solution in detail, scrutinises the costs and approves funding. SHE Transmission has been working with OFGEM on three projects under the strategic wider works mechanism:

Beaully to Mossford: Following the successful completion of Phase 1 with the energisation of Corriemoillie substation in 2013, the rebuild of the 132kV overhead line is progressing well and is on course to be completed in 2015. OFGEM has given capital funding approval of £68 million (2013/14 prices) in total for both phases of work.

Kintyre to Hunterston: Following on from the completion of the platform for a new substation and landing point for the subsea cable in Kintyre, the construction of new steel towers for a replacement 132kV overhead line to the existing substation at Carradale has now begun. Onshore cable installation works at the Kintyre landfall have also started, with onshore cable works at Hunterston and marine installation expected to follow next year. The current programme anticipates that the reinforcement will be operational by 2015. OFGEM has given capital funding approval of £205.6 million (2013/14 prices).

Caithness to Moray: In July 2014, OFGEM announced its approval of the needs case for a High Voltage Direct Current (HVDC) subsea cable between Caithness and Moray, with associated reinforcements to the onshore network in the north of Scotland. The contract for the HVDC works has been placed and preparations are under way for the initial stage of construction work at substation sites in Caithness and Moray. In October 2014, OFGEM published a consultation on the proposed allowances for the new transmission link. SHE Transmission believes that it has produced a well-defined and well scoped project that offers value for money for customers while allowing the realisation of the vast potential of renewable electricity generation in the north of Scotland for the benefit of the whole country. While it is disappointed with the level of the allowances proposed (£1.06 billion in terms of 2013/14 prices), the consultation does enable further engagement with OFGEM to take place on important issues, such as the best way for treating contingency- and risk-related costs. SHE Transmission believes the consultation provides the right opportunity for these to be considered and resolved in a way that's fair to customers and investors alike, and will engage constructively in the process. In December 2014, OFGEM approved £1.1 billion funding; the regulator's decision is £105 million less than the funding request from SHE Transmission to ensure consumers pay no more than necessary. The project itself is still expected to be completed in 2018, with the first revenues due to be received in 2015/16.

Electricity Distribution

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2014 was 40.4TWh and in the six months to 30 September 2014 was 18.3TWh. Capital expenditure in electricity distribution networks was £308.3 million in the financial year to 31 March 2014 and £127.6 million in the six months to 30 September 2014, taking the total for the 2010-15 Price Control to £1,197.0 million so far.

In the autumn and winter of 2013/14, SEPD and SHEPD customers were affected by an exceptional series of severe winter storms, which had particular impact on its network in central southern England. Following disruption to power supplies over the Christmas period, SEPD and SHEPD launched a consultation in January 2014 to identify where customers and stakeholders felt improvements could be made.

In July 2014, SEPD and SHEPD published *Reconnecting with our customers*, responding to the feedback received and outlining steps to: (i) invest in improved communication with customers during power cuts; (ii) improve the support offered to customers who may be vulnerable while they are without electricity; (iii) reduce the number and duration of power cuts, including by increasing the availability of mobile generation; and (iv) make it easier for customers to send in details of observed damage to the network.

SEPD and SHEPD also submitted evidence required by OFGEM and Department of Energy & Climate Change (DECC) for their investigations into performance and processes over the 2013 Christmas period. Both reviews

recognised, in line with the evidence submitted, that the networks in the south and south east of England were particularly severely affected by the adverse weather. In recognition of the inconvenience and disruption caused to customers, and following discussions with OFGEM, SEPD and SHEPD committed to donating £1 million to the Red Cross, Age UK, MacMillan Cancer Support and National Energy Action. SEPD and SHEPD has also set up a £1.3 million fund to help community groups and organisations that look after the welfare of vulnerable households.

Continuing investment in the distribution networks contributes to the key priority of providing an essential service to customers by delivering a reliable supply of electricity. SEPD and SHEPD have a strong historic performance on network reliability. Investing in the networks to maintain reliability is therefore critical to sustaining this record; and with new standards on restoring power within 12 hours, SEPD and SHEPD continue to implement a programme to keep assets in good condition and to further improve reliability without increasing costs. SEPD and SHEPD are fully committed to working collaboratively with DECC, other distribution network operators (*DNOs*) and the Energy Networks Association to deliver improvements for customers ahead of winter 2014/15 and beyond.

In July 2014, OFGEM published the draft determinations for electricity DNOs for RIIO-ED1, including SEPD and SHEPD. RIIO-ED1 will be the first electricity distribution Price Control review to reflect the new regulatory framework first adopted in RIIO-T1 and RIIO-GD1. It will run from 1 April 2015 to 31 March 2023. In line with the RIIO principles for energy networks, it puts an emphasis on incentives and innovation as central to achieving a cost effective transition to low carbon technology.

SEPD has long supported the incentive-based RIIO framework for networks' price controls given the clear benefits to customers of increased transparency and greater focus on outputs and innovation. These benefits are evident from the cost reductions and service improvements already set out in the RIIO-ED1 business plan and acknowledged by OFGEM. In particular, SEPD welcomes OFGEM's recognition of the strong package of customer improvement described in its March 2014 business plan.

However, a number of elements of the draft determinations were disappointing, including OFGEM'S proposals on efficient financing and its assumptions about the scope of further cost reductions. SEPD has worked with OFGEM during the consultation period to set out its views and provide additional information where required. SEPD's aim is to secure a final settlement that both provides value for money for customers as well as securing the funding required to operate and develop its distribution networks for customers' benefit.

Gas Distribution

SSE receives 50 per cent. of the distributable earnings from SGN, in line with its equity holding, and also provides some, but reducing, levels of support through a managed service agreement.

As at 30 September 2014, SGN's total RAV was £4.9 billion (including SSE's share of £2.45 billion). In the six months to 30 September 2014, SGN invested £168.0 million (£321.7 million in 2013/14) in capital expenditure on mains and services replacement projects. Investment will continue to be a top priority for SGN and, in line with that, it expects to invest around £350 million in capital expenditure and mains and service replacement projects during 2014/15.

Retail

Customer Relations

SSE's Retail segment comprises three business areas: energy supply, energy-related services and enterprise. SSE believes it is the second largest energy supplier in the competitive markets in Great Britain and in Ireland. In the six months to 30 September 2014, SSE's energy customer accounts in Great Britain and Ireland fell from 9.10 to 8.89 million. This comprised 4.56 million household electricity accounts in Great Britain, 3.12 million

household gas accounts in Great Britain, 0.43 million business electricity and gas accounts; and 0.78 million electricity and gas accounts in Northern Ireland and Republic of Ireland. The decline in customer account numbers reflects the challenging and highly competitive market conditions in Great Britain, in which there are 10 suppliers of scale (with over 250,000 customers) aiming to retain and gain customers. In addition, there is a growing number of smaller suppliers in Great Britain, who are exempt from the cost of implementing certain government social and environmental policies and, therefore, have a competitive advantage over larger suppliers. Despite this decline in the number of customer accounts, SSE's price freeze to 2016 is a very positive commitment to household customers in Great Britain, which has contributed to a significant reduction in levels of customer 'churn'.

SSE also provides other energy-related products and services to over 350,000 customers, covering three main areas: home services; metering and mechanical and electrical contracting.

In this Prospectus, this business segment is referred to as *Retail*.

Energy supply

SSE appreciates that its customers rely on its core products of electricity and gas to heat and power their homes in order to live comfortably. SSE believes it is a leader in the energy supply industry on the issue of energy affordability and remains the only energy supplier in Great Britain with an unconditional commitment not to increase standard household energy prices before 2016 at the earliest. This is the longest price freeze of its nature the Great Britain energy market and follows a price reduction in March 2014 for all of SSE's household energy customers, regardless of the tariff chosen by SSE's customers.

This shows that SSE is responding to the concerns of its customers and to the pressures of a competitive market. The price freeze covers a period of at least 20 months; during that period, SSE is aware that the many different costs of supplying energy to households will naturally go up and down. Guaranteeing not to increase prices for such a long period of time requires a long-term view of costs; wholesale energy now accounts for less than 50 per cent. as other costs have increased, and SSE therefore believes that this commitment should also be judged over the long term. In the meantime, SSE will continue to make competitive offers to the customers who prefer the flexibility of a standard variable tariff.

SSE would like to extend its price freeze beyond 2016, or even cut prices if further costs (such as levies imposed by the UK government and passed at customers in their energy bills) can be taken out of energy supply. SSE has continued to call for more of the levies to be moved into general taxation, making bills cheaper and helping those less able to pay.

SSE is committed to working with all stakeholders to minimise energy bills and improve the market for customers and it is currently engaging with the Competition and Markets Authority (*CMA*) investigation into competition in the energy market. Both within and outside of this process, SSE will continue to seek ways in which it can take or propose positive action that makes a difference for customers.

SSE remains fully supportive of the aims of the Energy Company Obligation (*ECO*) and in 2013/14 was able to help around 85,000 homes through the scheme. SSE has made good progress towards delivering its obligation under ECO for the period to March 2015, and, with clarity now provided on the design of the scheme to 2017, it is well positioned to deliver on its subsequent obligations.

A smart meter will be installed in every home in Great Britain, as part of UK and European law. Around 53 million smart meters are due to be installed in around 30 million homes and businesses by the end of 2020. Of these, SSE is set to install around nine million meters. Having kept installation volumes low during the foundation phase due to its focus on a cost-effective roll-out and the lack of maturity in the smart meter supply chain, SSE is now preparing for the mass roll-out of smart meters.

As of 30 September 2014, SSE had installed over 11,000 smart meters in customers' homes against its own full-year target of 50,000. Mass deployment will commence in early 2016 following the Initial Live Operations of the Smart Data Communications Company anticipated in late 2015, in line with the current DECC plans. As at the date hereof, SSE has incurred approximately £27 million in capital expenditure to enhance customer service and install smart meters.

The number of SSE electricity and gas supply customers who receive bills based on actual meter readings was 96.5 per cent. as at 30 September 2014, in line with the preceding year. SSE Metering has also installed just over 23,500 AMR (automatic meter reading) meters which are read remotely. In the six months to 30 September 2014, SSE collected 4.0 million electricity readings and 2.7 million gas readings.

Energy-related services

In addition to electricity and gas, SSE offers energy-related products and services including boiler, central heating and wiring maintenance and installation as well as supplying and maintaining meters for household and commercial customers. These areas represent a natural fit with SSE's existing strengths and propositions and are an important part of SSE's strategy to become a diversified retailer of energy and essential services.

In line with the plan to expand its business in 'Home and Essential Services', SSE sees opportunities for growth in its home telephone and broadband business. SSE's ongoing investment into customer relationship management to understand and communicate more effectively with its customer base will also enable it to unlock the significant opportunity to sell a broader range of services to its existing customer base.

Enterprise

SSE's enterprise division brings together SSE's services in competitive markets for industrial and commercial customers so that the energy and related needs of these customers can be met through an effectively integrated approach. These services include: (i) ***Contracting*** – SSE believes it is one of the UK's largest mechanical and electrical contractors; (ii) ***Lighting*** – maintaining street lights and providing design, installation and electrical connections services; (iii) ***Utilities*** – building, owning, operating and maintaining 'out of area' electrical, gas, heat and water networks; and (iv) ***Telecoms*** – owning and operating a 13,700 kilometres network in the UK and 15 other co-location facilities providing leading edge carrier ethernet, internet and optical services.

Bringing together these businesses, supported by a dedicated relationship management function, giving business customers one point of contact for multiple contracts, enables SSE's enterprise division to provide key services for just under 250,000 customers in the private sector, such as property development and construction, and in the public sector, such as local government and social housing.

Wholesale

SSE's wholesale business delivers its services through the following business activities: (i) energy portfolio management (***EPM***); (ii) electricity generation; (iii) gas production; and (iv) gas storage. EPM and electricity generation form a single profit centre with a focus on the efficient procurement (and, in the case of renewable sources, capture) of energy and efficient operation of electricity generation plant. In doing so, SSE ensures it operates in compliance with all regulatory requirements, including the EU Regulation on Energy Market Integrity and Transparency (***REMIT***). In this Prospectus, this business segment is referred to as ***Wholesale***.

Energy Portfolio Management

In recent years, SSE has typically required around 8 million therms of gas per day to supply all its customers and to fuel its power stations, and around 140GWh of electricity per day to supply all its customers. EPM has three primary routes to procure competitively and sustainably 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, with 100 per cent. of SSE’s electricity and demand traded on the day-ahead auction market.

EPM short term priorities include: (i) securing a stable and predictable supply of energy to meet SSE’s customers’ needs; (ii) driving business change to respond effectively to new UK, Republic of Ireland and EU regulations; (iii) responding to market evolution and change; (iv) identifying and agreeing new long term energy supply contracts; and (v) continuing to support improved market transparency and liquidity initiatives.

Generation

This objective is underpinned by six principles that direct the operation of, and investment in, its generation portfolio: (i) compliance – to comply with all safety standards and environmental and regulatory requirements; (ii) diversity – to avoid over-dependency on particular fuels or technologies; (iii) capacity – to meet the electricity needs of domestic and small business customers; (iv) availability – to respond to customer demand and market conditions; (v) flexibility – to ensure that changes in demand for electricity and the variability of generation from wind farms can be addressed; and (vi) sustainability – to support progressive reduction in the CO2 intensity of electricity generated through the cost efficient decarbonisation of its generation fleet.

SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant. In moving to a lower carbon generation mix SSE will, by the end of the decade, transition its generation assets from a portfolio weighted towards gas and coal, towards a portfolio weighted towards gas and renewables.

SSE currently owns or has an ownership interest in 11,733MW of capacity, which comprised at 30 September 2014: (i) 4,262MW of gas- fired generation capacity (Great Britain); (ii) 1,068MW of gas and oil fired generation capacity (Ireland); (iii) 3,009MW of coal fired generation capacity (Great Britain) (including biomass co-firing); and (iv) 3,394MW of renewable generation capacity (Great Britain and Ireland) (including pumped storage).

With this portfolio, SSE believes it has the greatest fuel diversity for producing electricity among UK generators and retains the most flexible assets fleet. SSE also believes that this portfolio makes it the largest generator of electricity from renewable sources across Great Britain and Ireland.

The energy sector is undergoing a period of profound change which is creating a range of opportunities and challenges for SSE’s Wholesale businesses. The main public policy drivers of this change are those of the energy ‘trilemma’ – European and UK-led decarbonisation policy; security of energy supplies; and price competitiveness (affordability). These policy objectives are influencing and in turn being impacted by:

- the extent of economic growth, which has a direct impact on energy demand;
- forecasts of tightening generation capacity in Great Britain as older plant (including coal, nuclear and gas) closes as a result of age and of regulatory and economic pressures;
- market change as the implementation of the new operating frameworks delivered by Electricity Market Reform (*EMR*) gathers pace in Great Britain;
- the changing policy on the UK Carbon Price Support Rate and the move to reform allocation of allowances under the EU Emissions Trading System (*EU ETS*);
- the requirement for the electricity system to manage higher penetrations of variable energy sources; and
- opportunities for market harmonisation between Great Britain and Ireland.

The UK government believes that the Energy Act 2013 and the associated EMR represents the most significant market intervention since the privatisation of electricity. It features:

- an annual minimum price for a tonne of carbon that applies only in the UK (the **Carbon Price Support Rate**);
- long-term contracts, effectively fixing the price received by generators for each unit of electricity produced from new low carbon sources;
- a mechanism to address the security of supply challenges resulting from plant closures and the changing nature of electricity generation (the **Capacity Market**); and
- maximum emissions levels for electricity generation technologies.

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 7.9TWh in the six months to 30 September 2014, compared with 12.4Wh during the same period to 30 September 2013.

Uncertainty around market conditions and the public policy framework affecting electricity generation in Great Britain have continued to create challenging conditions for SSE's thermal and renewables businesses.

The first half of 2014/15 has seen an uplift in 'spark spreads' – the difference between the cost of gas and emissions allowances used by a CCGT and the value of the power produced - compared to the historically low levels of 2013/14 which resulted in greater use of coal fired plant. This uplift in 'spark spreads' resulted in a fuel switch with gas generating more than coal over the summer months. This 'coal-to-gas switch' has been driven by a combination of lower wholesale gas prices and the April 2014 increase in the Carbon Price Support rate (see below), which has increased the cost of coal-fired generation relative to CCGTs. This additional cost, along with the constraints imposed by the Industrial Emissions Directive (**IED**) and the introduction of full auctioning of EU emissions allowances, has begun to weigh heavily on the longer term viability of coal assets.

There have been a number of public policy interventions in recent years that significantly affect both the development and operation of thermal plant. These include:

- **Carbon Price Support:** On 1 April 2013, the UK government increased the Carbon Price Support rate in line with the level confirmed in the 2013 budget. This added a cost of £9.55/tonne of CO₂ emissions in 2014/15 for fossil-fuelled generation in Great Britain, on top of the cost of complying with the EU ETS. The additional cost is set to rise to c.£18/tonne in 2015/16. The 2014 Budget announced that this additional cost would then be frozen until 2018/19, instead of increasing as previously proposed.
- **Capacity Market:** In December 2014, SSE provisionally 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. This outcome was ratified by the Secretary of State for Energy and Climate Change on 2 January 2015.

OFGEM has consistently maintained that over the coming years electricity generation capacity margins will be lower than they have been in recent years due to weak market economics and EU regulations closing down 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 introduction of a Capacity Market, which will begin in 2018/19; and

- in the intervening period, through the Supplemental Balancing Reserve (**SBR**) which is due to begin this winter (2014/15).

In addition to these mechanisms, National Grid already has the ability to manage moments when demand outstrips supply through a range of different balancing and optimisation tools.

SSE has consistently argued that an effective and timely Capacity Market will be an important additional tool in assisting DECC and National Grid discharge their responsibility for ensuring security of supply; and that SBR could be an effective short term solution if it incentivises mothballed plant to come back on the system and does not inadvertently affect business-as-usual market operations.

The design, implementation and operation of these mechanisms is ultimately determined by DECC and National Grid. They will determine how much capacity is required to ensure security of supply under each of these mechanisms. Once this volume has been determined they will signal this to the market, and then procure the necessary capacity through a competitive auction/tender process.

Responsibility for determining the volume of capacity required to ensure a secure electricity supply, and for the timely signalling of this to the market, therefore, lies with National Grid and DECC. Both organisations are confident that they will fulfil this responsibility. The Secretary of State for Energy and Climate Change stated in Parliament in November 2014 that ‘in the short term, our plan ensures we will comfortably meet supply security standards in this winter and next. As National Grid confirmed last week, they now have new balancing measures in place that will ensure the risk of supply disruption will remain at very low levels over the next few years and well within reliability standards’.

SSE will play its part by working with DECC and National Grid and by focusing on ensuring that its plant, where practicable, is available to generate at times when demand is highest. It will also continue to assist the UK government and National Grid with their policy development and will engage constructively with all parties on this issue.

The Winter 2014/15 supplementary balancing reserve tender was originally due to take place in early 2014 but an announcement was delayed until June, at which point National Grid informed the market that it would not be running an SBR tender for the winter of 2014/15, but would run a demand side balancing reserve tender.

In September 2014, however, National Grid announced that it would now tender for SBR capacity for 2014/2015 winter with contracts to begin 1 November 2014. This short timescale was insufficient to allow mothballed plants, such as SSE’s Keadby gas-fired power station, to return to service. However, SSE was able to submit its Peterhead gas-fired power station into the SBR tender. On 28 October 2014, National Grid awarded a 780MW SBR contract to Peterhead.

Certainty about the outcome and impact of the Capacity Market and SBR auction processes is required before investment decisions in new and existing thermal generation plant can be made. In the meantime, SSE will continue to manage its portfolio of electricity generation assets in accordance with the principles set out above and in accordance with disciplined financial management.

Coal

SSE has two wholly-owned coal-fired power stations: Ferrybridge (Yorkshire; 1,014MW) and Fiddler’s Ferry (Lancashire, 1,995MW):

- all of the capacity at Fiddler’s Ferry and Ferrybridge is compliant with the Large Combustion Plant Directive and able to continue to generate electricity beyond 2015;
- the capacity at Fiddler’s Ferry (as well as all of SSE’s gas-fired power generating plant) has been opted in to the transitional national plan (**TNP**) for emissions and dust; and

- the capacity at Ferrybridge has been opted in to the limited life derogation option under the IED.

Selecting some plant for the IED, while maintaining other plant within the TNP, provides a number of alternative options for how these plants will operate in the future. SSE will monitor the development of the TNP over the next two years and, as key elements are finalised, will review whether it is appropriate to also move the plant at Ferrybridge into the TNP. Any decisions will also be informed by market conditions and the effects of the capacity market.

SSE is undertaking a trial investment on one 485MW unit at its Fiddler's Ferry site, which will reduce NOx emissions. The viability of extending this solution to the other three units at the plant is still under consideration.

On 31 July 2014, a serious fire impacted Ferrybridge units 3 and 4, both of which were on a planned outage and, therefore, not operational. SSE's practised emergency response procedures were immediately activated, all people on the site were quickly accounted for, and the site was made secure and safe. There were no injuries. West Yorkshire Fire and Rescue Service brought the fire under control that afternoon and left the site the following day.

Since then, SSE has been working to determine the cause of the fire, assess the damage, and determine how best to return the units to service. Investigations have revealed that the fire only impacted on the Flue Gas Desulphurisation absorbers attached to the two units, with the units themselves unaffected. The damage caused to the unit 3 absorber was less severe and the unit (490MW) returned to service on 29 October 2014. Unit 4 (490MW) began a period of commissioning on 10 December 2014, ahead of a formal return to service in early 2015.

In November 2013, SSE confirmed that Uskmouth's remaining transmission entry capacity (*TEC*) capacity would be released to the National Grid by 31 March 2014 and that the station would cease to operate on that date. On 9 May 2014, SSE announced that, having not been able to find a suitable purchaser, it was closing the station. SSE continues to explore divestment opportunities for the site.

Gas-fired

SSE has three wholly-owned gas-fired power stations: Keadby (Lincolnshire; 735MW); Medway (Kent; 700MW) and Peterhead (Aberdeenshire; 1,180MW):

- ***Keadby*** is mothballed, meaning it will take up to one year to restore this station to full operating condition. As a result, the decision to delay the SBR tender process meant Keadby was not able to participate in the National Grid's Supplemental Balancing Reserve service for the winter of 2014/15. It has not had TEC since 1 April 2014. Nevertheless, investment of £39 million in the station in the financial years ended 31 March 2012, 2013 and 2014 means that if and when it is required to generate electricity in the future, it will be able to operate in a more flexible and efficient way;
- ***Medway*** is operational, having also benefited from investment of £48 million in the financial years ended 31 March 2012, 2013 and 2014 to achieve greater efficiency and flexibility in operations; and
- ***Peterhead*** only has TEC of 400MW since 1 April 2014. In May 2014, SSE signed a contract with National Grid to provide ancillary support services to the electricity system in the north of Scotland for one year. This contract was terminated on 28 October 2014, when SSE signed a contract to provide up to 780MW of capacity to SBR. Under the terms of the SBR contract, Peterhead's capacity will remain unavailable to the market unless called by National Grid. Existing investment plans to improve the station's efficiency and flexibility will continue as planned in 2014/15.

Retaining potential investment options in thermal generation

Despite experiencing challenges in recent years, it is still anticipated that gas-fired power stations will eventually play an increasingly important role in electricity generation.

As a result, SSE will continue to pursue development options for CCGT in Great Britain, including Abernedd (South Wales), Keadby 2 (Lincolnshire), and Seabank 3 (Bristol). These locations offer many attractive characteristics, including established grid and gas connections, availability of cooling water and land area. Although projects such as Abernedd and Keadby 2 are at an advanced stage of development, the outcome of the upcoming Capacity Market auctions (for which Abernedd has pre-qualified) will determine whether SSE progresses with any of these projects in the foreseeable future. As such, SSE does not expect to take any final investment decisions to construct new plant until at least 2016. This effectively means that no new capacity will come into operation before 2017/18 at the earliest, given the lead times for constructing new CCGT plant.

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 2014, it had 2,551MW 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; (ii) 1008MW of onshore wind; (iii) 355MW of offshore wind; and (iv) 38MW dedicated biomass. Total electricity output from all of SSE's renewable resources in Great Britain (including pumped storage) was 2,380GWh in the six months to 30 September 2014.

Output from around 1,900MW of SSE's capacity for renewable energy in Great Britain qualifies for renewable obligation certificates, the main financial support scheme for renewable energy in the UK and Northern Ireland. The new contracts for difference (*CfD*) support mechanism is now accessible for new projects.

Absolute support for low carbon technologies will be limited by the levy control framework budget which has the objective of controlling costs to customers from government energy policies. This also means that there is competition for support contracts. In addition, the contract terms will impact the way in which renewable projects are developed and constructed. This changes the way that investments in renewables are evaluated by both developers and providers of finance including SSE.

Since April 2008, SSE has invested more than £3.5 billion in renewable generation. As it moves forward to the next phase of its renewable energy development pipeline, SSE is focusing on projects that best allow the efficient allocation of resources and economies of scale. While the extent of overall development is likely to be lower than in recent years, the focus is on a consistent pipeline of new developments.

In order to support future investment in onshore wind assets SSE will, as outlined in March 2014, recycle capital by adding to its established programme of selective disposals of operational onshore wind assets and those in development.

Onshore Wind Farms

The following projects are in construction as at the date of this Prospectus and are key components of SSE's portfolio of strategic onshore wind projects in Great Britain: (i) Langhope Rig (16MW) – construction at this 10-turbine site in the Scottish Borders is advanced, site will be completed early in 2015; (ii) Strathy North (67MW) – located in Sutherland, pre-construction work has been completed and main site construction is under way, the site is due for completion in 2015; and (iii) Dunmaglass (94MW) – main construction at this site south of Inverness is progressing well, the site is scheduled for completion in 2016.

In addition to these projects under construction, SSE has around 670MW of onshore wind farm and 600MW of hydro pumped storage development projects currently in planning in Great Britain: (i) Clyde Extension (pre-construction) (up to 162MW) – this project, an extension of SSE’s operational Clyde wind farm, was consented by Scottish Ministers in July 2014, and SSE will now progress the project towards a final investment decision expected in 2015; (ii) Bhlairaidh (with consent) (up to 108MW) – this project is located in the Great Glen in the Highlands and was consented by Scottish Ministers in January 2014; SSE is progressing towards a final investment decision expected in 2015; (iii) Stronelairg (with consent) (up to 240MW) – located in the Great Glen in the Highlands and consented by Scottish Ministers in June 2014. In August the John Muir Trust announced it had lodged a petition to the Court of Session asking for this decision to be judicially reviewed. SSE will participate fully in the legal process; (iv) Strathy South (in planning) (up to 160MW) – in July 2014, the Highland Council’s Northern Planning Committee raised an objection to the project, which is located in Sutherland adjacent to SSE’s Strathy North site. This objection will now be examined further at a public local inquiry, to be held in 2015. SSE will participate fully in this process; and (v) Coire Glas (with consent) (up to 600MW) – this pumped storage scheme received planning consent from the Scottish Ministers in December 2013. Making a final investment decision to progress the Coire Glas scheme will require overcoming a number of substantial commercial and regulatory challenges and therefore any final investment decision is unlikely to be taken in the foreseeable future.

Offshore Wind Farms

In line with its wider focus on streamlining and simplifying its business, SSE decided in March 2014 to narrow significantly the focus of its near term development plans for its offshore wind development portfolio. In particular, it decided to focus its efforts and resources on progressing the Beatrice project (up to 664MW, at that time a 75/25 per cent. partnership between SSE and Repsol Nuevas Energias UK) planned for the outer Moray Firth.

In April 2014, the UK government announced that Beatrice had been successful in securing an investment contract (or early CfD). Securing this contract has enabled SSE and its partners to continue to invest in the engineering and procurement work required to maintain progress towards a final investment decision (**FID**) in early 2016.

In November 2014, SSE agreed to sell a portion of its shareholding in the Beatrice Offshore Wind Farm (**BOWL**) to fund management company Copenhagen Infrastructure Partners (**CIP**). This sale aligns with SSE’s strategic review of its offshore wind portfolio in March 2014 and secures an additional strong partner to take the project forward to a FID. After the divestment, SSE owns a 50 per cent. share of the BOWL project; CIP will own 25 per cent. with Repsol maintaining its ownership of the remaining 25 per cent. This FID will only be made if the project provides the return on capital investment required to be compatible with the risks involved.

In addition to Beatrice, SSE has an interest in three further offshore wind farm developments. In March 2014, it announced that it would not take the consented Galloper project (50:50 partnership between SSE and RWE Innogy) beyond the current phase of development. In September 2014 SSE announced it would exit the project on pre-agreed terms once a RWE Innogy has made a final investment decision. In October 2014, RWE Innogy announced that it was stopping its development activities. SSE will now work with RWE Innogy to explore divestment opportunities for the project.

SSE also stated that it would support the progress of development work on Seagreen (3,500MW), a 50:50 partnership between SSE Renewables and Fluor Limited, and Forewind (7,200MW), a four-way partnership with RWE Innogy, Statoil and Statkraft, with the objective of securing the necessary consents for construction; but that it would not extend beyond that the scope of its commitments to the projects in the near term. Since March 2014, Seagreen has secured consent for the first two projects in the zone (totalling 1,050MW) and the

first two Forewind projects (totalling 2,400MW) have completed the examination phase of the consenting process.

Construction continues at the Hunterston offshore wind energy test facility in North Ayrshire, in which SSE is a partner. The Siemens (6MW) turbine is completed and is now fully operational. The Mitsubishi (7MW) turbine is now on site and is being erected by our partner Mitsubishi. SSE is working with Scottish Enterprise to find a manufacturer for the third and final berth at the site.

Generation – Ireland

As in Great Britain, SSE in Ireland seeks to maintain a balanced generation portfolio. The fuel mix includes 1,068 MW of oil fired plant, 544MW of wind powered renewable generation and will shortly include the new gas-fired power station at Great Island, which is on course to be fully commissioned in the spring of 2015. This combination of fuel mix and technologies ensures that SSE is well positioned. SSE will own just over 14 per cent. of installed capacity on the island of Ireland once Great Island combined cycle gas turbine (**CCGT**) becomes fully operational, to supply power to the Irish electricity system throughout any given day.

SSE seeks to maintain an effective balance between the electricity required to meet the demands of its customer base in Ireland and the electricity it produces from its own generation assets on the island. Following the expected completion of the new CCGT at Great Island, County Wexford, around March 2015, SSE will generate enough electricity to meet around 60 per cent. of its energy customers' requirements. Meanwhile, the investment at Great Island will displace oil with gas, further improving carbon intensity and underpinning SSE Airtricity's heritage as a greener energy provider.

The project at Great Island is well progressed. Its rated capacity is 460MW but in October 2014 its regulated export capacity was set at 431MW. SSE is currently reviewing its options, with the objective of securing additional regulated export capacity. During September 2014 construction activities at the site were completed and commissioning is currently under way. The plant is expected to be fully operational by the end of March 2015. SSE believes that this plant will be the cleanest, most efficient and reliable gas power plant on the Irish national grid, generating enough electricity to power half a million homes. Once completed, SSE will progress with the decommissioning of the 240MW heavy fuel oil plant at Great Island.

The market across Ireland and Northern Ireland is known as the Single Electricity Market (**SEM**). Its main components include: centrally dispatched generation; a capacity mechanism that remunerates generators for a proportion of their fixed costs when plant is made available; and no support for offshore wind electricity generation.

Whilst the market has proven very effective at delivering cost competitive energy supply for customers since its introduction in 2007, the requirements of the EU target model mean changes need to be made. These changes are expected to take effect around October 2017. During the forthcoming period of change, SSE is focused on ensuring that the new integrated single electricity market (**ISEM**) delivers a reasonable return for its investments in Ireland while ensuring it can deliver competitive prices for consumers.

In September 2014, the regulatory authorities, representing both the Commission for Energy Regulation and the Northern Ireland Utilities Regulator published a decision paper on high level design for ISEM. The decision paper delivered was as expected and reflected industry discussions and can be viewed under two headings – those relating to energy arrangements and those relating to capacity.

The project now moves to the detailed design and implementation phase. This is expected to deliver a detailed market structure for both energy and capacity by August 2015. Meanwhile SSE is an active participant both through industry representation and bilaterally with the appropriate regulatory authorities. Changes to the SEM presents both risk and opportunity and SSE will consider how its assets can best be deployed in the new ISEM,

ensuring affordable prices for customers, security of electricity supply and supporting continuing investment in electricity in Ireland.

Enabling works have started at the 170MW (SSE share 116.5MW) Galway Wind Park development in County Galway. Subject to a final investment decision, this project is expected to enter construction toward the end of March 2015. Similarly, early site investigation works have commenced at the 32MW Tievenameenta wind farm in Northern Ireland.

In the Republic of Ireland, renewable generation receives policy support through the renewable energy feed in tariff (*REFIT*). Policy support for renewable generation in Northern Ireland is delivered through the renewables obligation. It is proposed that the new UK Contract for Difference support scheme will be introduced in Northern Ireland in 2016, and work on its final design is ongoing. Meanwhile, the advent of ISEM removes the reference price previously used for the payment of REFIT. With both Northern Ireland and Republic of Ireland falling behind in the achievement of 2020 renewable targets, SSE is currently working with officials in both jurisdictions to find suitable solutions that will provide investment incentives while protecting consumers.

Multi-fuel

An important new pipeline of potential new thermal generation investments for SSE is multi-fuel. These plants use waste-derived fuels to generate electricity and therefore benefit from an additional revenue opportunity in the form of a 'gate fee' for taking the waste. They offer a sustainable energy solution that is less carbon-intensive than other solid fuels and which further diversifies the range of fuels that SSE can deploy in its generation fleet.

The SSE and Wheelabrator Technologies Inc. 50:50 joint venture – Multifuel Energy Lyd (*MEL*) - is currently constructing a £300 million multi-fuel generation facility adjacent to SSE's existing Ferrybridge power station. Construction of the facility is progressing well and it is scheduled to be fully operational in 2015. A development consent order application for a second multi-fuel facility at the Ferrybridge site has been submitted to the Planning Inspectorate and is currently in the pre-examination phase. A final decision on the application is expected in 2015.

In addition to the MEL joint venture, SSE is pursuing the development of a new multi-fuel facility of up to 50MW at its Slough site and has submitted a planning application to Slough Borough Council.

Carbon Capture and Storage (CCS)

The use of fossil fuels to generate electricity will eventually depend on the extent to which CCS technology can be applied to abate CO₂ emissions. Consequently, the development of viable carbon capture technology is central to the UK's climate change and energy security objectives. Against this background, SSE is continuing to work with Shell UK as a strategic partner in the proposed gas CCS project at SSE's gas-fired power station in Peterhead. The project aims to create the first commercial-scale application of CCS technology at a gas-fired power station anywhere in the world and by capturing up to 1 million tonnes of CO₂ annually. Shell is leading the development of the project, and will take responsibility for the construction of the CO₂ capture plant and thereafter the operation, transport and storage elements of the project.

In February 2014, the UK Government announced that it would fund the next stage in the development of the project, the Front End Engineering Design (*FEED*) study, as part of its CCS commercialisation competition. Detailed work on the project has been continuing since then.

Gas Production

SSE's upstream portfolio is 100 per cent. gas weighted, and at 30 September 2014, it is estimated to hold in excess of 2.4 billion therms of reserves. The volume and production profile of the assets represents a secure

supply of gas that can meet around 30 per cent. of the forecast demand from SSE's domestic gas customers over the next three years. Total output in the six months to 30 September 2014 was 200.8 million therms, compared with 206.8 million therms in the same period last year. The addition, in April 2013, of the Sean assets scaled-up SSE's gas production business considerably. SSE continues to seek new opportunities to increase its reserve base to meet portfolio demand requirements. The UK and North-Western Europe remains the focus for this activity, as it provides a relatively stable tax and fiscal regime and is near to SSE's domestic energy supply markets. SSE has not set a target scale for its gas production business and will continue to evaluate gas weighted opportunities in line with its investment criteria and financial discipline.

Gas Storage

SSE, through its wholly-owned subsidiary SSE Hornsea Ltd, has an ownership interest in two major gas storage facilities in East Yorkshire: (i) Hornsea (Atwick); and (ii) Aldbrough. Gas storage priorities are the on-going high safety standards for operation of the facilities, and the compliant and effective operation of the gas storage business. Hornsea provided 257 million cubic metres (mcm) of gas storage capacity to its customers in the six months to 30 September 2014, with one of its nine caverns out of service during this period. It accounts for around 5 per cent. of the total gas storage in the UK and 10 per cent. of deliverability. Aldbrough is owned by SSE (66.7 per cent. share) and Statoil (UK) Ltd (33.3 per cent. share) and operated by SSE. SSE believes that Aldborough is the UK's largest on shore gas storage facility. Seven of the facility's nine caverns were in operation during the six months to 30 September 2014, providing a total capacity of up to 200 mcm, with work to return the two remaining caverns to service at an advanced stage and which is due for completion by the end of the financial year. It is anticipated that the Aldbrough facility will ultimately be able to store up to a maximum of around 320mcm, and account for around 17 per cent. of the UK's storage deliverability.

Borrowings and facilities

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average debt maturity as at 30 September 2014 was 10.2 years, compared with 10.7 years at 31 March 2014.

SSE's debt structure remains strong, with around £5.1 billion of medium-to-long-term borrowings as at 30 September 2014 in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Just over £60 million of medium-to-long-term borrowings will mature in the year to 31 March 2016. The balance of SSE's adjusted net debt is financed with short-term bank debt. The facilities, external debt and internal loan stocks for the SSE Group as at 31 December 2014 (with sterling equivalents (where applicable) as at that date) were as follows:

- | | |
|-----|--|
| SSE | <ul style="list-style-type: none"> ● \$700 million (£446.6 million) U.S. private placement due between 2017 and 2024 ● \$100 million floating rate notes due 2015 (£61.5 million of principal outstanding) ● £500 million 5 per cent. bonds due 2018 ● ¥15 billion (£126.6 million) 3.52 per cent. fixed rate notes due 2018 ● £300 million 4.25 per cent. bonds due 2021 ● £300 million 5.875 per cent. bonds due 2022 ● £500 million 8.375 per cent. bonds due 2028 |
|-----|--|

	<ul style="list-style-type: none"> • £350 million 6.25 per cent. bonds due 2038 • €600 million 2.00 per cent. bonds due 2020 (£466.1 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 2018 (undrawn) • £1.5 billion Euro Commercial Paper programme (undrawn) • £200 million revolving credit facility maturing 2018 (undrawn) • £141.2 million non-recourse funding relating to street lighting projects • £500 million Bank Term loan maturing September 2015 • £200 million Bank Term loan maturing June 2015 • £100 million European Investment Bank loan due 2020 • £300 million European Investment Bank loan due 2021
SSE Generation Limited	<ul style="list-style-type: none"> • £1.050 billion intercompany loan stock due to SSE
SSE Renewables Holdings Limited	<ul style="list-style-type: none"> • £10.5 million external bank debt
SHEPD	<ul style="list-style-type: none"> • £129.0 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 • £118.5 million 4.454 per cent. index linked loan maturing 2044 • £400 million intercompany loan stock due to SSE
SHE Transmission	<ul style="list-style-type: none"> • £313.1 million intercompany loan stock due to SSE • £150 million European Investment Bank loan due 2021 • £150 million European Investment Bank loan due 2022
SSE Energy Supply Limited	<ul style="list-style-type: none"> • £250 million intercompany loan stock due to SSE
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"> • £300 million intercompany loan stock due to SSE
SSE E&P UK Limited	<ul style="list-style-type: none"> • £180 million intercompany loan stock due to SSE

Keadby Generation Limited • £600 million intercompany loan stock due to SSE Limited

SSE Generation Ireland Limited • £58.1 million intercompany loan stock due to SSE Ireland Limited

Hybrid Capital

On 20 September 2010, SSE issued €500 million and £750 million bonds (hybrid capital) (*2010 Hybrid Bonds*). In September 2012, SSE 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 2015 or 1 October 2020 or any subsequent coupon payment date after this for the 2010 Hybrid Bonds; and (ii) 1 October 2017 or every five years thereafter for the 2012 Hybrid Bonds. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to the compliance of certain conditions including no dividend having been declared on SSE's ordinary shares. The hybrid capital for the SSE Group as at 30 September 2014 (with sterling equivalents (where applicable) as at that date) are as follows:

- SSE
- £750.0 million Capital Hybrid Security – perpetual with first call date 1 October 2015
 - €500 million (£411.0 million) Capital Hybrid Security – perpetual with first call date 1 October 2015
 - €750 million (£602.3 million) Capital Hybrid Security – perpetual with first call date 1 October 2017
 - \$700 million (£431.1 million) Capital Hybrid Security – perpetual with first call date 1 October 2017

Investment priorities

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

Investment and capital expenditure

In March 2014, SSE said that it expected its investment and capital expenditure will total around £5.5 billion (net of disposal proceeds) over the four years to 2017/18. Since 1 April 2009, SSE's investment and capital expenditure has totalled £8.0 billion. This has resulted in a significantly expanded asset base for SSE, including; (i) an increase of £1.75 billion in the RAV of its electricity networks; and (ii) an increase of around 1,200MW in its capacity for generating electricity from wind farms.

In addition, SSE expects to complete the commissioning of the new CCGT plant at Great Island, County Wexford, by March 2015.

SSE believes that the long term nature of the assets which it owns and operates and those which it continues to develop, will play their part in providing the energy that people will need for decades to come and that value from these investments will be sustained for many years to come.

Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses. This means that investment should be: (i) in line with SSE's commitment to strong

financial management, including securing returns which are clearly greater than the cost of capital, enhance earnings and support the delivery to shareholders of a return on their investment; (ii) complementary to SSE's existing portfolio of assets and consistent with the maintenance of a balanced range of assets within SSE's businesses; (iii) consistent with developments in public policy and regulation; and (iv) governed, developed, approved, and executed in an efficient and effective manner, consistent with SSE's Major Projects Governance Framework and with the skills and resources available within SSE.

Across its Networks, Retail and Wholesale businesses, SSE currently expects that its capital and investment expenditure will total around £1.6 billion (gross) in 2014/15 and total around £5.5 billion (net) over the four years to 31 March 2018. This includes: (i) economically-regulated expenditure on electricity transmission networks; (ii) economically-regulated electricity distribution expenditure plus essential maintenance of other assets; and (iii) expenditure that is already committed to development of new assets (including around 575MW (construction and pre-construction) of onshore wind farm capacity) and the enhancement and deployment of systems to improve customer service.

SSE's commitment to financial discipline means that it will monetise value from existing investments and assets in order to support future investment in any other new assets to which it decides to commit over the next few years, where that will enhance adjusted earnings per share over the long term.

SSE believes that a capital and investment programme on this scale, financed in part by recycling of capital through appropriate asset disposals, and a flexible approach to value-creation, should position it well for the future and will deliver: (i) well maintained existing and new modern capacity for generating electricity; (ii) renewable sources of energy, supporting a reduction in the CO2 intensity of electricity generated; (iii) a hedge against prices for fossil fuels; (iv) additions to the asset base in key businesses, including economically-regulated electricity networks; (v) and additional cashflows and profits to support continuing dividend growth.

SSE's programme of disposal of assets which are not core to its future plans, or which result in a disproportionate burden, or which could release capital for future investment, is well under way. Agreements with a total value of over £400 million have already been reached or concluded to dispose of assets such as SSE Pipelines Ltd and PFI street lighting contracts. The disposal of such assets is taken into account in the total expected net capex referred to above of £5.5 billion across the four years to March 2018. Proceeds and debt reduction from all of these planned disposals are expected to total around £500 million.

In addition, there are other assets such as onshore wind farms which present, through disposal, opportunities to release capital to support future investment. SSE currently envisages securing proceeds of around £500 million through disposals of such assets. In total, therefore, the disposal programme is expected to result in a financial benefit of around £1 billion including proceeds received and balance sheet debt reduced. The disposal programme is also intended to enable SSE to ensure its resources are fully focused on what is important and relevant to its core purpose of providing the energy people need in a reliable and sustainable way.

Regulatory Environment

Electricity Generation

The electricity industry in Great Britain is regulated by the Gas and Electricity Markets Authority (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 2013, a number of reforms to the Great Britain electricity market are now being implemented, including the introduction of new long term contracts to support low carbon generation as well as a capacity mechanism to ensure resource adequacy. In December 2014, SSE provisionally 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. This outcome was ratified by the Secretary of State for Energy and Climate Change on 2 January 2015.

In December 2013, the UK government published the energy market reform delivery plan which set out further detail on the supporting methodology and analysis which underpin the final contract for differences strike prices and confirmed the Government policy on the level of system security that will be required under the capacity mechanism. In April 2014, the UK government announced that the Beatrice JV offshore wind development project in the Moray Firth, had been successful in securing an investment contract (or early CfD).

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. While 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 principle objective and duties of the Authority are described above (see "*—Regulatory Environment—Electricity Generation*"). While SSE's supply businesses operate under licence, the supply of electricity and gas in Great Britain is a competitive activity and is not subject to price controls.

OFGEM's retail market reforms are now fully in force with new rules in place to improve supplier communications such as bills and annual summaries. There remains some regulatory uncertainty around white label providers, a facility which SSE currently utilises with Marks and Spencer. OFGEM is consulting on its position to continue to allow white label providers beyond the year end. However there is some uncertainty around the details of this and whether some restrictions will be introduced.

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 the first three months of 2015, the CMA will publish its working papers and annotated Issues Statement which will provide an indication of the CMA's emerging thinking in light of the evidence that has been submitted by the parties. The CMA is expected to notify provisional findings and possible remedies (if required) in May or June 2015. Publication of the CMA's final report is required by 25 December 2015 and the implementation of any remedies by mid-2016.

Electricity Transmission

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

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 price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity transmission price control commenced on 1 April 2013. This covers the eight year period until 31 March 2021. The price control is called RIIO-T1. A mid-period review of RIIO-T1 is expected to be conducted during 2016. OFGEM is expected to consult on the scope of this review in late-2015.

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.

OFGEM is currently undertaking a review of the Great Britain regulated transmission framework: the Integrated Transmission Planning and Regulation project. One option under consideration is this project is the introduction of competition in the construction and ownership of onshore transmission.

Electricity distribution

SHEPD and SEPD hold licences to distribute electricity.

The electricity industry is subject to extensive legal and regulatory obligations and controls with which both SHEPD and SEPD must comply. SHEPD and SEPD are regulated by the Authority. The principal objective and

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

Each of SHEPD and SEPD is subject to control on the prices it can charge and the quality of supply it must provide. Their operations are regulated under their distribution licences pursuant to which income generated is subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity distribution price control was agreed with OFGEM in November 2009 and commenced on 1 April 2010. This covers the five year period until 31 March 2015. The next price control will be 'RIIO-ED1' which will run from 1 April 2015 to 31 March 2023. OFGEM published its final determinations on the 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-T1 is expected to be conducted during 2018. OFGEM is expected to consult on the scope of this review in late-2017.

Gas distribution

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

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

Each network is subject to control on the prices it can charge and the quality of service it must provide. The operations of each network are regulated under its gas transportation licences pursuant to which income generated is subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current gas distribution price control commenced on 1 April 2013 and covers the eight year period until 31 March 2021. A mid-period review of RIIO-GD1 is expected to be conducted during 2016. OFGEM is expected to consult on the scope of this review in late 2015.

USE OF PROCEEDS

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

TAXATION

The comments below, which apply only to persons who are beneficial owners of the Securities, concern only certain withholding obligations and reporting requirements with respect to the Securities and are of a general nature based on current United Kingdom 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. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Holder who is not resident for tax purposes in the UK unless that Holder carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a corporate Holder, carries on a trade through a UK permanent establishment, in connection with which the interest is received or to which the Securities are attributable, in which case tax may be levied on the UK branch or agency, or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The provisions relating to additional amounts referred to in Condition 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. Information Reporting

Information relating to securities may be required to be provided to HM Revenue & Customs in certain circumstances. This may include the value of the Securities, details of the holders or beneficial owners of the Securities (or the persons for whom the Securities are held), details of the persons to whom payments derived from the Securities are or may be paid and information and documents in connection with transactions relating to the Securities. Information may be required to be provided by, amongst others, the holders of the Securities, persons by (or via) whom payments derived from the Securities are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Securities on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

3. 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 but may be subject to the information reporting requirements above.

4. 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.

5. EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires each EU Member State to provide to the tax authorities of other EU Member State details of payments of interest (and similar income) paid or secured by a person established within its jurisdiction to (or for the benefit of) an individual resident or certain limited types of entity established in that other EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The ending of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries and territories have adopted similar measures.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The Directive will also apply a “look through approach” to payments made via certain persons, entities or legal arrangements (including trusts and partnerships), where certain conditions are satisfied, where an individual resident in a Member State is regarded as the beneficial owner of the payment for the purpose of the Directive. This approach may in some cases apply where the person, entity or legal arrangement is established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive). The Amending Directive requires EU Member States to

adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

The attention of Holders is drawn to Condition 12 (*Taxation*) of the Euro Conditions and of the Sterling Conditions.

6. Proposed Financial Transaction Tax (*FTT*)

On 14 February 2013, the European Commission has 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*). 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.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. 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.

7. FATCA Withholding

Whilst the Securities are in global form and held within the ICSDs, it is expected that foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 (*FATCA*) will not affect the amount of any payments made under, or in respect of, the Securities by the Issuer, any Paying Agent and the common depositary, given that each of the entities in the payment chain from (but excluding) the Issuer to (but including) the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an inter-governmental agreement will be unlikely to affect the Securities. The Agency Agreement expressly contemplates the possibility that the Securities may be exchanged for Definitive Securities and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, Definitive Securities will only be printed in remote circumstances.

SUBSCRIPTION AND SALE

Barclays Bank PLC (*Barclays*), Morgan Stanley & Co. International plc (*Morgan Stanley* and, together with Barclays, the *Joint Global Co-ordinators and Joint Bookrunners*), Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas and Lloyds Bank plc (together with the Joint Global Co-ordinators and Joint Bookrunners, the *Joint Bookrunners*), Banco Santander, S.A., Bank of China Limited, London Branch, Credit Suisse Securities (Europe) Limited, Merrill Lynch International, Mitsubishi UFJ Securities International plc, National Australia Bank Limited ABN 12 004 044 937, RBC Europe Limited and The Royal Bank of Scotland plc (together with the Joint Bookrunners, the *Bookrunners*) have, pursuant to a Subscription Agreement dated 6 March 2015, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Euro Securities at 99.998 per cent. of their principal amount and the Sterling Securities at 99.763 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 referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998 (the *Financial Services Act*), as implemented by Article 26, paragraph 1(d) of CONSOB Regulation No. 16190 of 29 October 2007 (the *Intermediary Regulation*), pursuant to 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 Intermediary Regulation, 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, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; 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 Italian 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 10 March 2015, 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 19 May 2014 and 17 February 2015.
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 2014 (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 2014 (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 Euro Securities, the International Securities Identification Number (*ISIN*) is XS1196713298 and the Common Code is 119671329. In respect of the Sterling Securities, the ISIN is XS1196714429 and the Common Code is 119671442.

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 2013 and 31 March 2014, respectively;
 - (c) the unaudited consolidated financial statements of the Issuer for the six months ended 30 September 2014;
 - (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 2013 and 31 March 2014, respectively.
10. For the period from (and including) the Issue Date to (but excluding) the relevant First Reset Date, the yield on the Euro Securities will be 2.375 per cent. per annum and the yield on the Sterling Securities will be 3.913 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 £11,485.
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/or any of its affiliates in the ordinary course of business.
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

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

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

JOINT BOOKRUNNERS

**Banco Bilbao
Vizcaya Argentaria, S.A.**
One Canada Square
44th Floor
London E14 5AA
United Kingdom

BNP Paribas
10 Harewood Avenue
London NW1 6AA
United Kingdom

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

PASSIVE BOOKRUNNERS

**Banco Santander, S.A.
Ciudad Grupo Santander**
Avda. de Cantabria s/n
Edificio Encinar
28660 Boadilla del Monte
Madrid
Spain

**Bank of China Limited,
London Branch**
1 Lothbury
London EC2R 7DB
United Kingdom

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

**Merrill Lynch
International**
2 King Edward Street
London EC1A 1HQ
United Kingdom

**Mitsubishi UFJ Securities
International plc**
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ
United Kingdom

**National Australia Bank
Limited ABN 12 004 044
937**
Level 2
88 Wood Street
London EC2V 7QQ
United Kingdom

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

**The Royal Bank of
Scotland plc**
135 Bishopsgate
London EC2M 3UR
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