

PROSPECTUS



SSE plc

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

Scottish Hydro Electric Power Distribution plc

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

Scottish Hydro Electric Transmission plc

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

Southern Electric Power Distribution plc

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

€10,000,000,000

Euro Medium Term Note Programme

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

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

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

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

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

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

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

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

Arranger for the Programme

The Royal Bank of Scotland

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.

BNP PARIBAS

Mitsubishi UFJ Securities

National Australia Bank Limited

Santander Global Banking & Markets

Barclays

Lloyds Bank

Morgan Stanley

RBC Capital Markets

The Royal Bank of Scotland

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

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

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

*With the exception of the information contained in the sections entitled “Description of the Issuers — SSE plc”, “Description of the Issuers — Scottish Hydro Electric Power Distribution plc”, “Description of the Issuers — Scottish Hydro Electric Transmission plc” and “Description of the Issuer — the SSE Group”, the information contained in the documents referred to in paragraphs (i), (ii) and (iii) of the section entitled “Documents Incorporated by Reference” and the information contained in paragraphs 2(a), (b) and (c) relating to the consents, approvals and authorisations in connection with the update of the Programme of SSE, SHEPD and SHE Transmission, 3(a) and (b) relating to the significant change statement of SSE, SHEPD and SHE Transmission, 4(a) and (b) relating to the material adverse change statement of SSE, SHEPD and SHE Transmission and 5(a) and (b) relating to the litigation statement of SSE, SHEPD and SHE Transmission, in each case of the section entitled “General Information”, this document comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive as amended, to the extent that such amendments have been implemented in a Member State of the European Economic Area) and for the purpose of giving information with regard to SEPD (the “**SEPD Prospectus**”) and together with the SSE Prospectus, the SHEPD Prospectus and the SHE Transmission Prospectus, the “**Prospectus**”) which, according to the particular nature of SEPD and the Notes, is necessary to enable*

investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of SEPD.

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

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

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

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

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

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

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

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

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

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuers or the issue and offering of the Notes. The Arranger and each Dealer

accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements should be considered as a recommendation by any of the Issuers, the Arranger or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of any Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with the issue of any Tranche (as defined in “Overview of the Programme — Method of Issue”), the Dealer or Dealers (if any) acting as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a 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 Tranche 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 Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;*
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;*
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor’s currency;*
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and*
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.*

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

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

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

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DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated financial statements of SSE for the financial years ended 31 March 2013 (included on pages 104 to 183 of the 2013 Annual Report of SSE) and 2014 (included on pages 98 to 180 of the 2014 Annual Report of SSE), respectively;
- (ii) the audited financial statements of SHEPD for the financial years ended 31 March 2012 (included on pages 13 to 34 of the 2012 Statutory Accounts of SHEPD) and 2013 (included on pages 13 to 34 of the 2013 Statutory Accounts of SHEPD), respectively;
- (iii) the audited financial statements of SHE Transmission for the financial years ended 31 March 2012 (included on pages 13 to 28 of the 2012 Statutory Accounts) and 2013 (included on pages 14 to 31 of the 2013 Statutory Accounts), respectively;
- (iv) the audited financial statements of SEPD for the financial years ended 31 March 2012 (included on pages 13 to 34 of the 2012 Statutory Accounts of SEPD) and 2013 (included on pages 13 to 33 of the 2013 Statutory Accounts of SEPD), respectively, together, in each case, with the audit report thereon,
- (v) the section entitled “Terms and Conditions of the Notes” on pages 19 to 47 of the Prospectus dated 13 June 2008 relating to the Programme,
- (vi) the section entitled “Terms and Conditions of the Notes” on pages 18 to 50 of the Prospectus dated 10 July 2009 relating to the Programme,
- (vii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 17 September 2010 relating to the Programme,
- (viii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 16 September 2011 relating to the Programme,
- (ix) the section entitled “Terms and Conditions of the Notes” on pages 21 to 59 of the Prospectus dated 27 June 2012 relating to the Programme, and
- (x) the section entitled “Terms and Conditions of the Notes” on pages 20 to 56 of the Prospectus dated 2 August 2013 relating to the Programme.

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

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the relevant Issuer and viewed on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

SUPPLEMENTARY PROSPECTUS

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

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

RISK FACTORS

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

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

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

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

Factors that may affect the relevant Issuer's ability to fulfil its obligations under Notes issued under the Programme

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

In particular, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Issuers to meet their payment obligations under the Notes, and there can also be no assurance that net operating revenues generated by the SSE Group will be sufficient to enable the Issuers to meet such payment obligations. Any failure by any holder of a licence within the SSE Group to comply with the terms of their respective licences may lead to the making of an enforcement order by The Office of Gas and Electricity Markets ("OFGEM") that could have a material adverse impact on the relevant Issuer and/or the SSE Group.

OFGEM's review of its enforcement policies is reaching its conclusion, with the introduction of 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 is currently consulting on revised Enforcement Guidelines, which will allow a discount for early settlement, and a new penalties and redress policy statement.

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. Despite these reforms, there remain concerns and as a result OFGEM is consulting on a proposed reference to the Competition and Markets Authority ("CMA") to investigate the energy market to address any long term barriers to competition and determine, among other things, whether vertical integration is in customers' interests.

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

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.

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 rises 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 macro-economic 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 Issuers operate and/or political direction could adversely impact on the SSE Group's market position, financial position or competitiveness. An example is the recent consultation

published by the Agency for Cooperation of Energy Regulators (“ACER”), which includes a recommendation for future unbundling of distribution network operators.

The UK government has legislated for a major process of electricity market reform in Great Britain (“GB”) through the Energy Act 2013 (the “Energy Act”). The detailed implementation of the various measures to be taken under the electricity market reform programme will be set out in secondary legislation expected to come into force during the summer of 2014. The Energy Act also legislates for provisions on consumer protection and on domestic tariffs and licensable activities.

Going forwards, it is expected that legislation will be introduced to bolster investment in infrastructure and reform planning law to improve economic competitiveness. It is anticipated that this new legislation will seek to enhance the United Kingdom's energy independence and security by opening up access to shale and geothermal sites and maximising North Sea resources.

Uncertainty arises from the fact that a referendum on whether Scotland should become an independent country will take place in September 2014; a “yes” vote would extend that uncertainty until the details of Scotland's post-independence relationship with the rest of the United Kingdom is determined and could adversely impact on the SSE Group's market position, financial position or competitiveness. SSE believes that the interconnection and integration of the electricity and gas systems and markets in Scotland and in England and Wales would continue regardless of the outcome of the referendum on Scotland's future this September. SSE, therefore, anticipates that there would continue to be a single energy market for GB (including Scotland), just as there is a single electricity market for the island of Ireland. Nevertheless, arrangements for the future of the energy market would have to be agreed by the Scottish government and UK government in the event of Scotland becoming independent. In addition, other issues that might affect SSE's business include uncertainty on the currency that an independent Scotland would use, Scotland's position in relation to the European Union and arrangements for recovery of capital investments currently socialised across GB, such as renewable energy and the transmission network. If Scotland were to vote in favour of independence, the process of negotiation with the UK government and the European Union on these and other matters is likely to be complex and time consuming. Although SSE will continue to focus on meeting the needs of its networks and energy supply customers and the interests of investors, the legislative and regulatory uncertainty of a “Yes” vote in the Scottish referendum could have a material adverse impact on SSE's operations and ultimately on the SSE Group's financial and market position.

Therefore, the risk of legislative and regulatory change will be present until the Scottish referendum and will continue to exist for some time if there is a ‘Yes’ vote. SSE has already put in place arrangements to address the increased uncertainty in its decision-making and believes that it is in a good position to engage constructively with the Scottish and UK governments if there is a ‘Yes’ vote. Its approach is to ensure that it continues to meet the needs of its networks and energy supply customers, in particular, whilst safeguarding the interests of investors.

Strategic Risk

It is the responsibility of the Boards of Directors of the Issuers 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 hydro-electric generation output, and wind conditions impact on wind generation output. Extreme weather conditions may result in network damage, which in turn is likely to result in disruption to electricity supply.

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

Reliance on IT Systems

The SSE Group relies on a number of key IT systems to manage its various business activities, including plant operation, networks, customer service activities, financial activities and energy trading operations. Failure to plan and execute suitable contingencies in the event of disruption of critical IT systems could materially adversely affect the relevant Issuer'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.

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

Pension Funds Risk

The SSE Group is directly responsible for two defined benefit pension schemes — the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme. These schemes have been closed to new employees since 1999, and new recruits since then have been offered instead defined contribution pension arrangements. Adverse changes in the valuation of assets and/or liabilities in the defined benefit schemes may occur due to both market movements and changes in the assumptions used to calculate the funding levels of such schemes. This in turn may result in SSE being required to make higher ongoing contributions, and/or make deficit repair payments which could be material.

Recruitment and Retention of Staff

The SSE Group is reliant on the employment of competent and qualified staff in all areas of its business. Failure to attract or retain key staff could materially adversely affect SSE Group operations. SSE 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. SSE 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 2010, SSE said that it expects that its investment and capital expenditure will be in the range of £1.5 billion to £1.7 billion in each of the five years to March 2015. For the financial year ended 31 March 2014, its investment and capital expenditure totalled £1,582.5 million. Capital and investment expenditure is expected to be around £1.6 billion in 2014/2015 and total around £3.9 billion (net of disposal proceeds received) over the three years to 2017/18. This total of £5.5 billion over the next four years 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 (this currently includes the CCGT at Great Island in Ireland, SSE's share of the 'multi-fuel' plant at Ferrybridge and onshore wind farm capacity. In addition to its own capital and investment expenditure programme, SSE effectively has a 50 per cent. interest in SGN's capital and replacement expenditure, through its 50 per cent., equity interest in SGN (as defined in "Description of the Issuers — The SSE Group"), is also making a significant investment in regulated gas networks. These capital investments could potentially weaken the SSE Group's consolidated financial profile in the shorter term, as capital expenditure on major projects is expected to exceed revenues generated by new operational assets in the business in the first few years following expenditure. 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 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 is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, SSE operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, SSE's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, SSE'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.

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

Risks related to the structure of a particular issue of Notes

Notes subject to optional redemption by an Issuer

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

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

RPI Linked Notes

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

Fixed/Floating Rate Notes

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

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

Modification, waivers and substitution

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

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

European Monetary Union

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of any Notes denominated in Sterling may become payable in Euro (ii) the law may allow or require such Notes to be re-denominated into Euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

EU Savings Directive

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 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. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The ending of such transitional period 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 Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

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, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. 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 relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note 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 relevant 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, which may mitigate an element of this risk if the Noteholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

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

FATCA Withholding

Whilst the Notes 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 Issuers’ obligations under the Notes are discharged once it has paid the Common Depository or Common Safekeeper for the ICSDs (as bearer, or registered holder, of the Notes) and the Issuers have 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 Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Bearer Notes where denominations involve integral multiples

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

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

Risks related to the market generally

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide

them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

The relevant Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

Interest rate risks

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

OVERVIEW OF THE PROGRAMME

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

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

Terms”).

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

Series as follows:

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

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes:

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

RPI Linked Notes:

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

Interest Periods and Interest Rates:

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

Redemption:

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

Optional Redemption:

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

Status of Notes:

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

Negative Pledge:

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

Cross Acceleration:

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

Ratings:

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

Tranches of Notes will be rated or unrated.

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

the assigning rating agency.

Early Redemption:

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

Withholding Tax:

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

Governing Law:

English.

Listing and Admission to Trading:

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

Selling Restrictions:

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

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

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

TERMS AND CONDITIONS OF THE NOTES

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

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

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

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

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

1 FORM, DENOMINATION AND TITLE

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

All Registered Notes shall have the same Specified Denomination.

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

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

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

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

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

2 EXCHANGES OF NOTES AND TRANSFERS OF REGISTERED NOTES

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

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

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

3 STATUS

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

4 NEGATIVE PLEDGE

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will ensure that no Relevant Indebtedness of the Issuer or any Relevant Subsidiary or of any other person and no guarantee by the Issuer or any Relevant Subsidiary of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any Relevant Subsidiary unless the Issuer shall, before or at the same time as the creation of such Security Interest, take any and all action necessary to ensure that:

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

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

5 INTEREST AND OTHER CALCULATIONS

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

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

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

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

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

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

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

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

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

- (C) Linear Interpolation

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

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

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

specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

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

“**Business Day**” means:

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

“**Interest Amount**” means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 REDEMPTION, PURCHASE AND OPTIONS

- (a) **Final Redemption:**

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

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

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

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

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

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

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

² Only applicable where SSE is the Issuer.

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

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

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

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

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

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

- (ii) This Condition 6(e)(ii) applies only where SHEPD, SHE Transmission or SEPD is the Issuer.

If Restructuring Event Put Option is specified hereon and if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders, the following provisions of this Condition 6(e)(ii) shall cease to have any further effect in relation to such Restructuring Event.

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

- (A) within the Restructuring Period, either:

- (I) if at the time such Restructuring Event occurs the Notes are rated, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (II) if at such time the Notes are not rated, a Negative Rating Event also occurs;
- (B) in making any decision to downgrade or withdraw a credit rating pursuant to paragraphs (i) and (ii) above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Trustee that such decision(s) resulted, in whole or in part, from the occurrence of the Restructuring Event (the “**Confirmation**”); and
- (C) an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a “**Negative Certification**”),

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

An event shall be deemed not to be a Restructuring Event if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Notes by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Notes an investment grade credit rating (BBB-/Baa3 or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any certification by an Independent Financial Adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interests of the Noteholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Noteholders.

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

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

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

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

respective equivalents for the time being) or better within the Change of Control Period; and

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

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

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

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

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

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

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

The Issuer shall, forthwith upon becoming aware of the occurrence of any event which may (after taking into account all (if any) other relevant events in relation to Disposed Assets for the purpose of this Condition 6(e)(iv)) result in a SSE Restructuring Event (a “**Potential SSE Restructuring Event**”) (a) provide the Trustee with the relevant Directors’ Report and (b) to the extent permitted by the terms of the engagement letter between the Issuer and the Reporting Accountants, provide or procure that the Reporting Accountants provide the Trustee with a copy of the Accountants’ Report. The Directors’ Report and the Accountants’ Report shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the

Noteholders. The Trustee shall be entitled to act, or not act, and rely on without being expected to verify the accuracy of the same (and shall have no liability to Noteholders for doing so) any Directors' Report and/or any Accountants' Report provided to it (whether or not addressed to it).

- (v) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a ¹[Restructuring Event Put Event], ²[Change of Control Put Event] or ²[SSE Restructuring Event Put Event] has occurred, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction), give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 17 specifying the nature of the ¹[Restructuring Event Put Event], ²[Change of Control Put Event] or ²[SSE Restructuring Event Put Event] and the procedure for exercising the ¹[Restructuring Event Put Option], ²[Change of Control Put Option] or ²[SSE Restructuring Event Put Option].

If the rating designations employed by any of Moody's or S&P are changed from those which are described in the definition of ¹[Rating Downgrade], ²[Change of Control Rating Downgrade] or [SSE Rating Downgrade] below, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee, the rating designations of Moody's or S&P or such Substitute Rating Agency (as appropriate) as are most equivalent to the prior rating designations of Moody's or S&P and this Condition 6 shall be construed accordingly.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether ¹[a Restructuring Event, a Negative Rating Event or a Potential Restructuring Event (as defined in the Trust Deed)], ²[a Change of Control Put Event, Change of Control, a Change of Control Negative Rating Event or any event which could lead to the occurrence of or could constitute a Change of Control] or ²[a SSE Restructuring Event, a SSE Negative Rating Event or a Potential SSE Restructuring Event] has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume without liability to any person for so doing that no such event has occurred. The Trust Deed also provides that in determining whether or not a ¹[Restructuring Event] or ²[SSE Restructuring Event] has occurred, the Trustee shall be entitled, but not bound, to rely solely on an opinion given in a certificate signed by two directors of the Issuer.

To exercise any option specified in this Condition 6(e) the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Notice Period or 30 days after a Put Event Notice is given (or such other put period as may be specified hereon, the "**Put Period**"), as applicable. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Redemption for Index Reasons:** If Indexation is specified hereon and if the Index (as defined in Condition 7) ceases to be published or any changes are made to it which, in the opinion of the Expert (as defined in Condition 7), constitute a fundamental change in the rules governing the Index and the

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² Only applicable where SSE is the Issuer.

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

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

- (g) **Purchases:** The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 INDEXATION

If Indexation is specified hereon:

- (a) **Indexation:**
 - (i) The redemption amount payable pursuant to Condition 6(a), 6(b), 6(c), 6(d), 6(e) or 6(f) and the amount payable pursuant to Condition 11 upon repayment of the Notes, as the case may be, shall be the Early Redemption Amount, the Optional Redemption Amount, ¹[the Restructuring Event Redemption Amount], ²[the Change of Control Redemption Amount], ²[the SSE Restructuring Event Redemption Amount] or the outstanding nominal amount of the Notes, as

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² Only applicable where SSE is the Issuer

the case may be, multiplied by the Index Ratio applicable to the date on which such redemption amount or repayment becomes payable.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$$\text{IFA} = \text{RPI}_{m8} \frac{(\text{Day of Calculation Date}-1)}{(\text{Days in month of Calculation Date})} \times (\text{RPI}_{m7} - \text{RPI}_{m8})$$

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

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

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

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

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

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

(b) **Changes in Index:**

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

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

(B) the definition of Base Index Figure in Condition 7(a) shall be amended to mean the product of the then-applicable Base Index Figure and the Index immediately following such substitution, divided by the Index immediately prior to such substitution.

(ii) *Delay in publication of the Index:*

(A) If, in relation to a particular payment of interest or to the redemption of the Notes and otherwise than in circumstances which the Issuer certifies to the Trustee may fall within Condition 7(b)(iii) or 6(f) (notwithstanding that the Issuer may subsequently be advised that they do not fall within Condition 7(b)(iii) or 6(f)), the Index Figure relating to any month (the “**calculation month**”) which is required to be taken into account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth day before the date on which such payment is due (the “**date for payment**”), the Index Figure relating to the relevant calculation month shall be the substitute index figure (if any) as is published by the Bank of England or the United Kingdom Debt Management Office (or such other United Kingdom authority as may be appropriate) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more of HM Government’s index-linked stocks, as determined by the Expert; or

- (B) if no such determination is made by the Expert within seven days, the Index Figure last published before the date for payment.

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

- (x) in the case of any Note not falling due for redemption on the date for payment, if the Index so subsequently published (if published while that Note remains outstanding) is greater or less than the Index applicable by virtue of (B) above, the interest payable on that Note on the Interest Payment Date next succeeding the date of such subsequent publication shall be increased or reduced to reflect the amount by which the interest payable on that Note on the date for payment on the basis of the Index applicable by virtue of (B) above fell short of, or (as the case may be) exceeded the interest which would have been payable on that Note if the Index subsequently published had been published on or before the second business day before the date for payment; or
- (y) in the case of any Note falling due for final redemption on the date for payment, no subsequent adjustment to amounts paid will be made.
- (iii) *Cessation of or fundamental changes to the Index*: If the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may consider reasonable), the Expert recommends for the purposes of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the Issuer or the interests of the Noteholders, as compared to the interests of the Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be published or such fundamental change in the rules governing the Index not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 17.

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

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

8 PAYMENTS AND TALONS

- (a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes**:
 - (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such

payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

- (d) **Payments subject to Fiscal Laws:** Save as provided in Condition 9, all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreement. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) a Paying Agent with 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 in order to conform to, such Directive.

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

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

- (f) **Unmatured Coupons and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than RPI Linked Notes), such Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, or RPI Linked Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all

unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).
- (h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
 - (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

9 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or within the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

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

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

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

10 PRESCRIPTION

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

11 EVENTS OF DEFAULT

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

- (i) **Non-Payment:** default is made for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as

is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer requiring the same to be remedied; or

- (iii) **Cross-Acceleration:** (A) any other Indebtedness For Borrowed Money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default or (B) any such Indebtedness For Borrowed Money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness For Borrowed Money of any person or (D) any security given by the Issuer or any Principal Subsidiary for any Indebtedness For Borrowed Money of any person or for any guarantee or indemnity of Indebtedness For Borrowed Money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a bona fide dispute as to whether the relevant Indebtedness For Borrowed Money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant Indebtedness For Borrowed Money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent, of Capital and Reserves, and for the purposes of this paragraph (iii), “Indebtedness For Borrowed Money” shall exclude Project Finance Indebtedness; or
- (iv) **Winding up — Issuer:** any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (v) **Winding up — Principal Subsidiary:** any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (vi) **Cessation of Business:** the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member or members of the Group (other than an Excluded Subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (B) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm’s length basis or (C) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders,¹[provided that if neither the Issuer nor any Relevant Subsidiary holds the Distribution Licence, the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (A) and (B) shall apply)]; or

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

- (vii) **Insolvency:** the Issuer or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Section 1 of the Insolvency Act 1986; or
- (viii) **Security Enforced:** a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit),

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

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

12 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

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

- (vi) to vary the currency or currencies of payment or denomination of the Notes, or
- (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution,

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

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

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of any Relevant Subsidiary or any wholly-owned Subsidiary (other than an Excluded Subsidiary) of the Issuer subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer, ¹[(ii) such Relevant Subsidiary or wholly-owned Subsidiary holding the Distribution Licence or, if and, to the extent that, such Relevant Subsidiary or wholly-owned Subsidiary or the Issuer does not hold the Distribution Licence, an unconditional and irrevocable guarantee in respect of the Notes being provided by the Relevant Subsidiary and/or a wholly-owned Subsidiary of the Issuer which holds the Distribution Licence,] (iii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (iv) certain other conditions set out in the Trust Deed being complied with. Where the Notes are to have the benefit of a guarantee provided by the Issuer and a Relevant Subsidiary or a wholly-owned Subsidiary as aforesaid, such guarantee shall be on a joint and several basis.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

13 ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in

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

nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

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

15 REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS

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

16 FURTHER ISSUES

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

17 NOTICES

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

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

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19 DEFINITIONS

For the purposes of these Conditions:

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

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

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

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

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

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

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

“**Capital and Reserves**” means the aggregate of:

- (i) the amount paid up or credited as paid up on the share capital of the Issuer; and

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

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

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

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

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

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

a **“Change of Control Rating Downgrade”** shall be deemed to have occurred in respect of a Change of Control if the then current rating assigned to the Notes by any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then current rating (if any) assigned to the Notes by any Rating Agency of its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Notes below investment grade (as described above), the rating is lowered one full rating category (from BB+/Ba1 to BB+/Ba2 or such similar lowering);

a **“Change of Control Negative Rating Event”** shall be deemed to have occurred if at such time as there is no rating assigned to the Notes by a Rating Agency (i) the Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes, or any other unsecured and unsubordinated debt of the Issuer or (ii) if the Issuer does so seek and use such endeavours, it is unable to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being) by the end of the Change of Control Period, provided that in either case, there is at least one Rating Agency in operation at such time from whom to obtain such a rating. If there is no Rating Agency so in operation no Change of Control Negative Rating Event shall be deemed to occur;

“Consolidated Operating Profit” means the consolidated operating profit on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets

(and, for the avoidance of doubt, excluding the impact of IAS 39 and exceptional items, as reflected in the Relevant Accounts) of the Issuer (including any share of operating profit of associates and joint ventures) determined in accordance with International Financial Reporting Standards (“IFRS”) by reference to the Relevant Accounts;

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

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

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

“**Distribution Licence**” means the distribution licence granted to the Issuer under Section 6(1)(c) of the Electricity Act, as amended by Section 30 of the Utilities Act, and from time to time, any other replacement licence or licences or exemptions granted or issued by any relevant authority or person in the United Kingdom to the Issuer which entitles the Issuer to distribute electricity in the United Kingdom or any part thereof;

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

“**Excluded Subsidiary**” means any Subsidiary of the Issuer:

- (i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (ii) none of whose Indebtedness For Borrowed Money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in paragraph (ii) of the definition of Project Finance Indebtedness; and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee,

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

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

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

“Indebtedness For Borrowed Money” means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash;

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

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

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

“Principal Subsidiary” at any time shall mean:

- (i) any Relevant Subsidiary; or
- (ii) any Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer at least 90 per cent, in nominal amount of whose Indebtedness For Borrowed Money is Project Finance Indebtedness):
 - (A) whose (a) profits on ordinary activities before tax or (b) net assets represent 20 per cent, or more of the consolidated profits on ordinary activities before tax of the Issuer or, as the case may be, consolidated net assets of the Issuer, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) and the then latest audited consolidated financial statements of the Issuer provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries), adjusted as deemed appropriate by the Auditors after consultation with the Issuer; or
 - (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and

the transferee Subsidiary shall become a Principal Subsidiary under the provisions of this sub-paragraph (B) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (A) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (B).

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

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

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

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

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

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

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

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

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

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

“**Relevant Indebtedness**” means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market, but shall in any event not include Project Finance Indebtedness;

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

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

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

- (i) (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements the Gas and Electricity Markets Authority (or any successor) gives the Issuer or, as the case may be, a Relevant Subsidiary, written notice of revocation of the Distribution Licence, provided that the giving of notice pursuant to paragraph 3 of Part I of the Distribution Licence as in effect on the date on which agreement is reached to issue the first Tranche of the Notes, shall not be deemed to constitute the revocation of the Distribution Licence; or
- (b) the Issuer or, as the case may be, a Relevant Subsidiary agrees in writing with the Secretary of State (or any successor) to any revocation or surrender of the Distribution Licence; or
- (c) any legislation (whether primary or subordinate) is enacted terminating or revoking the Distribution Licence, except in any such case in circumstances where a licence or licences on (in the opinion of the Trustee after consultation with the Issuer) no less favourable terms is or

are granted to the Issuer or a Relevant Subsidiary and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or becomes the primary obligor (jointly or severally where appropriate) under the Notes in accordance with Condition 12(c); or

- (ii) any modification, other than a modification which is of a formal, minor or technical nature, is made to the terms and conditions of the Distribution Licence on or after the date on which agreement is reached to issue the first Tranche of the Notes unless two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that such modified terms and conditions are not materially less favourable to the business of the Issuer; or
- (iii) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for Trade and Industry (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under Section 3A of the Electricity Act unless two directors of the Issuer have certified in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that the legislation is not materially adverse to the business of the Group; or
- (iv)
 - (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements or open market mechanisms or frameworks, in each case on terms which two directors of the Issuer certify in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or
 - (b) the Issuer or, as the case may be, a Relevant Subsidiary is given an Expulsion Notice (as defined in the Balancing and Settlement Code) pursuant to Section A.5.2.4 of the Balancing and Settlement Code requiring it to cease to be a party thereto; or
 - (c) there shall have occurred a Default (as defined in the Balancing and Settlement Code) under Section H.3.1.1 of the Balancing and Settlement Code in relation to the Issuer or, as the case may be, a Relevant Subsidiary, and such default remains unremedied or unwaived; or
 - (d) the Issuer or, as the case may be, a Relevant Subsidiary ceases to be a party to the Balancing and Settlement Code for any reason (other than pursuant to (b) and (c) above) except where a Distribution Licence is granted to a Relevant Subsidiary or, as the case may be, another Relevant Subsidiary as contemplated by paragraph (a) above and at or about the same time all rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary, pursuant to the Balancing and Settlement Code, which are attributable to such licence are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or such Relevant Subsidiary enters into one or more agreements, commercial arrangements or open market mechanisms or frameworks in relation to such licence which two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or
 - (e) any modification is made to the Balancing and Settlement Code in accordance with its terms or any legislation (whether primary or subordinate) is enacted terminating or modifying the Balancing and Settlement Code, provided that any such modification is material in the context of the rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary under the Balancing and Settlement Code; and provided further that any modification shall to the extent it grants or confers powers or discretions on the Gas and Electricity Markets Authority

(or any successor) under or in respect of the Balancing and Settlement Code be deemed not to be material as aforesaid, but for the avoidance of doubt, any modification to the Balancing and Settlement Code made by the Gas and Electricity Markets Authority (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would be a material modification as provided above shall not, by virtue of this provision be deemed not to be material;

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

“**Restructuring Period**” means:

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

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

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

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

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

provided that in either case there is at least one Rating Agency in operation at such time from whom to obtain such a rating, and if there is no Rating Agency in operation no SSE Negative Rating Event will be deemed to occur. The Issuer shall promptly notify the Trustee in writing of the date on which it first seeks to obtain the rating referred to in paragraph (a) above;

“**SSE Rating Downgrade**” shall be deemed to have occurred in respect of the SSE Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then current rating (if any) assigned to the Rated Securities by any Rating Agency of its own volition) is: (i) withdrawn or reduced from a rating of at least BBB or Baa2 (or their respective equivalents for the time being) to a rating below BBB or Baa2 (or their respective equivalents for the time being) or, (ii) if a Rating Agency shall already have rated the Rated Securities below BBB or Baa2 (or their respective equivalents for the time being), the rating is lowered at least one full rating notch (for example, BBB/ Baa2 to BBB-/Baa3 (or, in each case, their respective equivalents for the time being); provided that a SSE Rating Downgrade otherwise

arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular SSE Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce publicly or confirm in writing to the Issuer or the Trustee that its decision resulted, in whole or in part, from the occurrence of, or any event or circumstance comprised in or arising as a result of, or in respect of, the applicable SSE Restructuring Event (whether or not the SSE Restructuring Event shall have occurred at the time of the SSE Rating Downgrade);

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

“**SSE Restructuring Period**” means:

- (i) if at the time a SSE Restructuring Event occurs there are Rated Securities, the period of 90 days beginning on and including the date of the relevant Public Announcement; or
- (ii) if at the time a SSE Restructuring Event occurs there are no Rated Securities, the period beginning on and including the day on which such SSE Restructuring Event occurs and ending on the day 90 days

following the later of (a) the date on which the Issuer shall seek to obtain a rating as contemplated in the definition of SSE Negative Rating Event prior to the expiry of the 21 days referred to in that definition and (b) the date of the relevant Public Announcement,

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

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

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

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

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

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

20 GOVERNING LAW

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 INITIAL ISSUE OF NOTES

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

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

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

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

2 RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

3 EXCHANGE

3.1 Temporary Global Notes

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

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

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

3.2 Permanent Global Notes

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

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

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

3.3 Permanent Global Certificates

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

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

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

3.4 Partial Exchange of Permanent Global Notes

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

3.5 Delivery of Notes

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

3.6 Exchange Date

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

4 AMENDMENT TO CONDITIONS

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

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 8(e)(vii) and Condition 9(d) will apply to the Definitive Notes only. If the Global

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

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

4.2 Prescription

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

4.3 Meetings

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

4.4 Cancellation

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

4.5 Purchase

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

4.6 Issuer's Option

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

4.7 Noteholders' Options

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

4.8 NGN nominal amount

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

4.9 Trustee's Powers

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

4.10 Notices

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

5 Electronic Consent and Written Resolution

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

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

entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by accountholders in the clearing system with entitlements to such Global Note or Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, “**commercially reasonable evidence**” includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any other relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be applied by the Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUERS

SSE plc (“SSE”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC117119 on 1 April 1989 for an unlimited term. SSE was originally incorporated as North of Scotland Electricity plc., and on 1 August 1989 it changed its name to Scottish Hydro-Electric plc. In December 1998 Scottish Hydro-Electric plc merged with Southern Electric plc, whereby Scottish Hydro-Electric plc acquired Southern Electric plc and subsequently changed its name on 14 December 1998 to Scottish and Southern Energy plc, with a further name change to SSE plc on 30 September 2011 (SSE and its subsidiaries being the “SSE Group”).

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

Board of Directors of SSE

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

Name	Title
Lord Smith of Kelvin	Chairman (Non-Executive)
Alistair Phillips-Davies	Chief Executive
Gregor Alexander	Finance Director
Richard Gillingwater CBE	Non-Executive Director, Senior Independent Director
Lady Rice CBE	Non-Executive Director
Thomas Thune Andersen	Non-Executive 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 of SSE 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.
- **Lady Rice CBE** is Managing Director of the Lloyds Banking Group Scotland. She is a non-Executive Director on the Court of Bank of England and chair of its Audit & Risk Committee. She is a non-Executive Director of J Sainsbury plc and of Big Society Capital Ltd and of Scotland’s Futures Forum. She is also President of the Scottish Council for Development and Industry.

- **Thomas Thune Andersen** is the Chairman of Lloyds Register Group, of the Board of Trustees for the Lloyds Foundation and of DeepOcean Group. He is Vice Chairman of VKR Holding and a non-Executive Director of Petrofac Ltd.
- **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 of SSE and his/her private interests and/or other duties.

Acquisitions and Investments

Sean Gas Field

In April 2013, SSE through its wholly owned subsidiary SSE E&P UK Limited completed the acquisition from BP of a 50 per cent. working interest in the Sean gas field in the Southern North Sea. SSE paid a total cash consideration of £117.4 million, which reflects the value of the asset based on an effective economic date of 1 January 2012 (£180 million) less the value of the gas produced between 1 January 2012 and the completion date of 12 April 2013. From the completion date, the total net proven and probable (“**2P**”) reserves to SSE are expected to be approximately 1.1 billion therms over the life of the field, with the possibility of additional resource through infill drilling. The Sean gas field is close to a number of SSE’s existing upstream assets.

Braes of Doune, Carcant, Tappaghan and Bin Mountain

In April 2013, SSE completed the sale of four wind farms (Braes of Doune, Carcant, Tappaghan and Bin Mountain) with a total generation capacity of 79.5MW to a new fund manager Greencoat Capital for a total cash consideration of £140.9 million. On completion of the sale, Greencoat Capital successfully listed on the London Stock Exchange with SSE investing £10 million of the consideration into shares in the new fund.

As part of the deal, SSE agreed to enter into a power purchase agreement (“**PPA**”) for three of the wind farms totalling 43.5MW and will continue to have the operation and maintenance contract for all four wind farms.

Dunmaglass wind farm project

In May 2013, SSE reached agreement with Renewable Energy Systems Group to acquire the Dunmaglass wind farm project, located near Loch Mhor, 25 kilometres south of Inverness. The 33 turbine Dunmaglass project received planning consent in December 2010 and enabling works are due to be completed by the end of July 2014 and the main construction work will follow thereafter. The site is scheduled for completion in 2016. Once constructed, the project will have an installed capacity of 94MW.

The total investment in the project is expected to be around £200 million and is consistent with the scale and composition of SSE’s planned investment programme for 2015. The expected completion of the project in early 2016 will ensure that it is able to qualify for support through the Renewables Obligation Certificate regime.

Scottish Hydro Electric Power Distribution plc

Scottish Hydro Electric Power Distribution plc (“**SHEPD**”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC213460 on 4 December 2000 for an unlimited term, and is a 100 per cent. indirectly owned subsidiary of SSE. SHEPD was originally incorporated as Dunwilco (847) Limited, and on 8 January 2001 it changed its name to SSE Distribution (North) Limited. On 8 March 2001 it

changed its name to Scottish Hydro-Electric Power Distribution Limited and on 25 August 2006 it changed again to become Scottish Hydro-Electric Power Distribution plc. On 2 February 2007 the hyphen was dropped and it became Scottish Hydro Electric Power Distribution plc.

The north of Scotland electricity distribution business of SSE was transferred to SHEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SHEPD's principal activity is the distribution of electricity in the Scottish Hydro Electric region, owning, maintaining and operating the electricity network of around 47,000 kilometres of overhead lines and underground cables. SHEPD serves over 746,000 customers in a region which covers 54,900 square kilometres and includes northern mainland Scotland including the Highland and Grampian regions, parts of the Tayside, Central and Fife regions and rural parts of Strathclyde, together with all the Scottish islands including the Orkney and Shetland Islands and the Western Isles. The region has a population of approximately 1.2 million and a diversified customer base including domestic, commercial and industrial sectors.

Board of Directors of SHEPD

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

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Mark Mathieson	Director	No significant outside activities
Aileen McLeod	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

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

Scottish Hydro Electric Transmission plc

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

SHE Transmission is responsible for maintaining and investing in the transmission network in around 70 per cent. of the land mass of Scotland, serving remote island communities. As the licensed transmission company for an area with a significant amount of generation from renewable resources seeking to connect to the electricity network, SHE Transmission is required to ensure that there is sufficient capacity for projects committed to generating electricity.

Board of Directors of SHE Transmission

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

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Mark Mathieson	Director	No significant outside activities
Aileen McLeod	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

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

Southern Electric Power Distribution plc

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

The south of England electricity distribution business of SSE was transferred to SEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SEPD’s principal activity is the distribution of electricity in the Southern Electric region, owning, maintaining and operating the electricity network of around 78,000 kilometres of overhead lines and underground cables. SEPD serves around 2.9 million customers in a region which covers 16,900 square kilometres and includes the counties of Berkshire, Wiltshire, Dorset, Oxfordshire and Buckinghamshire. The region has a population of approximately 6 million and a diversified customer base including domestic, commercial and industrial sectors.

Board of Directors of SEPD

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

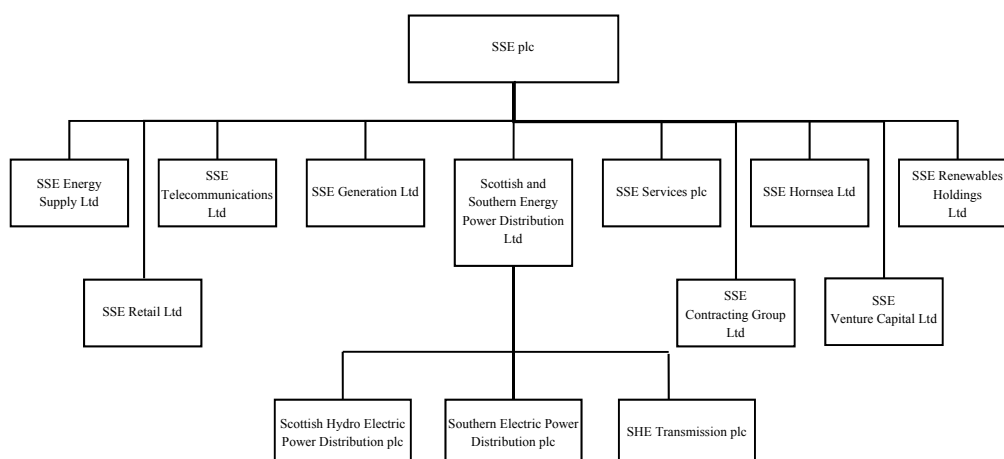
Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— Board of Directors of SSE” above)
Steven Kennedy	Director	No significant outside activities
Mark Mathieson	Director	No significant outside activities
Aileen McLeod	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
David Rutherford	Non-Executive	No significant outside activities

	Director	
Gary Steel	Non-Executive Director	No significant outside activities

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

The SSE Group

SSE Group — Principal Subsidiaries as at 31 March 2014



SSE 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 GB 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) GB 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.); (ii) Scottish Hydro Electric Power Distribution plc (100 per cent.); (iii) Southern Electric Power Distribution plc (100 per cent.); (iv) Scotland Gas Networks plc (50 per cent.); and (v) Southern Gas Networks plc (50 per cent.).

SSE estimated that the total Regulated Asset Value (“RAV”) of its economically-regulated ‘natural monopoly’ business is now £6.82 billion comprising around: (i) £1,330 million for electricity transmission; (ii) £3,050 million for electricity distribution; and (iii) £2,440 million for gas distribution (i.e. 50 per cent. of SGN’s total RAV).

SSE 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. 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.

Electricity Transmission

SHE Transmission is SSE's fastest growing and fastest changing business, where the core activity for much of the next decade will be construction. A total of £349.2 million was invested by SHE Transmission in its network in the financial year to 31 March 2014, taking its total RAV to £1.33 billion. In the financial year to 31 March 2015, SHE Transmission expects to incur capital expenditure of around £400 million, taking its RAV to over £1.6 billion by March 2015.

SHE Transmission has in place advanced plans and associated planning consents for a new transmission link between Caithness and Moray, including a subsea electricity cable in the Moray Firth. The new link is required to transmit a large volume of electricity from renewable sources in the north of Scotland and the assessment of SHE Transmission for these plans demonstrates a clear benefit for customers. OFGEM is undertaking further detailed consultations on the project, to which a combination of onshore reinforcements could be an alternative. The subsea link has a forecast investment requirement of around £1.3 billion (2012/13 prices), which would take SHE Transmission's total investment in the next four years to around £2 billion. If it is approved, revenue recovery is expected to begin in 2015/16.

SHE Transmission is planning to upgrade the existing East Coast transmission line from an operating voltage of 275kV to 400kV, with associated substation developments. The line runs from Blackhillock in Moray to Kincardine in Fife. Planning consent has been received for the substations along the line and work continues to secure approval for the overhead line. Plans for the upgrade are dependent on generators' requirements and the timing of SHE Transmission's submission will be in line with meeting generators' needs. The project has a forecast investment requirement of around £0.5 billion (2013/14 prices).

Electricity Distribution

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2014 was 40.4TWh. Capital expenditure in electricity distribution networks was £308.3 million in the financial year to 31 March 2014, taking the total for the 2010-15 Price Control to £1,069.0 million so far. This investment contributes to its 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, currently over 99 per cent. Investing in the networks to maintain reliability is therefore critical to maintaining 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, under revised proposals for RIIO ED1, to further improve reliability without increasing costs for customers.

RIIO-ED1 will be the first electricity distribution price control review to reflect the new regulatory framework initially adopted in RIIO-T1 and RIIO-GD1 (gas distribution). It will run from 2015 to 2023. In line with wider trends in electricity networks, it puts an emphasis on incentives to secure the innovation required for a cost effective transition to low carbon technology.

SEPD and SHEPD submitted a business plan in June 2013 and in November OFGEM announced that the plan had not been selected for 'fast-track'. Nevertheless, SEPD and SHEPD are encouraged that, as with previous price controls, the business is recognised as one of the leading companies on cost efficiency and that a number of proposals in key areas such as connections and customer service have been accepted in full. The outcome of the decision has been used to review a number of areas and a revised business plan was submitted in March 2014. Key proposals include; (i) a reduction to the distribution element of the electricity bill of around 15 per cent.; (ii) a reduction in the frequency and duration of power cuts; (ii) doubling the Guaranteed Standard payment to customers

who are off supply for more than 18 hours as a result of an unplanned interruption; (iii) more partnership working with relevant organisations to support vulnerable customers; and (iv) a 10 per cent. reduction in the average time it takes to receive a quote for connection and to connect in to the network.

While OFGEM has reduced its central reference point of the appropriate allowed base return on equity from 6.3 per cent. to 6.0 per cent. post-tax real, SEPD and SHEPD will continue to make the case for a fair return on equity; at the same time, this is just one part of a wider package of measures that will comprise the final proposals for electricity distribution between 2015 and 2023. SEPD and SHEPD believe that the revised business plan should lead to a Price Control that is fair to customers and investors alike.

Gas Distribution

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

By the end of the financial year ending 31 March 2014, SGN’s total RAV is estimated to be £4.88 billion. During the financial year to 31 March 2014, SGN invested £321.7 million 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.

Other Networks

SSE’s ‘other Networks’ businesses (Lighting Services, Utility Solutions and Telecoms) are market-based and relatively small when compared with its economically-regulated energy networks.

In recognition of the competitive markets in which they operate, these businesses have been brought under new leadership as part of an ‘Enterprise’ division within the SSE Group. This division aims to bring enhanced and co-ordinated focus to the business-to-business opportunities across SSE, including SSE Contracting. Building, for example, on Utility Solutions’ success in increasing its number of ‘out-of-area’ electricity networks in operation to 168, further consideration is being given to opportunities to maximise their growth potential over the coming years.

At the same time, SSE intends to ensure that the financial structure for these businesses is optimised, and for this reason SSE is seeking to dispose of its portfolio of Private Finance Initiative (“PFI”) lighting services contracts, and thereby secure a reduction in its net debt.

SSE’s ‘other Networks’ businesses have specific priorities for 2014/15, but there is a continuing need for these businesses to work together to realise growth potential and promote technological change and innovation.

Retail

Customer Relations

SSE’s Retail segment comprises two business areas: Energy Supply and Energy-related Services. SSE is the second largest energy supplier in the competitive market in GB and in Ireland. At 31 March 2014, SSE’s energy customer accounts in GB and Ireland fell from 9.47 to 9.10 million. This comprised (4.66 million household electricity accounts in GB, 3.21 million household gas accounts in GB, 0.42 million business electricity and gas accounts; and 0.81 million electricity and gas accounts in Northern Ireland and Republic of Ireland). The decline in customer account numbers reflects the highly competitive market conditions in GB, in which there are 10 suppliers of scale (with at least 100,000 customers) aiming to retain and gain customers. Despite this, SSE’s energy customer account numbers are less than 6 per cent. below their peak in March 2011.

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.

SSE appreciates that its customers rely on its core products of electricity and gas to heat and power their homes and live comfortably. It is a leader in the energy supply industry on the issue of energy affordability and in the year to 31 March 2014 it: (i) became the only supplier to freeze unconditionally household energy prices in GB until 2016;

(ii) was one of only two suppliers to cut prices for all household customers in GB, including fixed and capped price customers; and (iii) continued to lead the debate on the need to take costs out of energy bills and to fund energy policies more progressively through taxation, to ensure greater fairness and help the vulnerable.

Political Environment

SSE is committed to working with all stakeholders to minimise the bills that customers pay and has, over the last few years, highlighted that the outlook for energy bills was increasing due to upward cost pressures from: (i) the increased cost of buying energy on wholesale markets; (ii) paying for the investment to upgrade electricity and gas networks to deliver energy to customers; and (iii) social and environmental levies put on energy bills by successive governments.

Although energy prices became a major political issue in Autumn 2013, SSE responded to the upward cost pressures through announcing an average price rise of 8.2 per cent. for household customers in GB, effective from 15 November 2013. When SSE made changes to household tariffs it urged politicians of all parties to take steps to remove social and environmental levies from energy bills and fund the policy objectives they are designed to achieve through general taxation. This raised customer and political awareness and understanding of the issues and SSE welcomed the decision by the UK government to undertake a consultation on changes to improve the cost-effectiveness of the Energy Company Obligation (“**ECO**”), and other changes to these schemes. Over the course of 2014/15, SSE expects that the impact of these changes will see a reduction in the annual cost per customer by around £50 as a specific result of: (i) the extension by two years and simplification of the ECO, reducing the annual cost per customer by around £33; (ii) a government-funded rebate of £12 paid to every electricity customer in the autumn for the next two years; and (iii) distribution network operators (“**DNOs**”) making a voluntary commitment to reduce network costs in 2014/15, funding a one-off reduction of around £5 per customer.

SSE started to pass on the resulting savings to customers from March 2014 and has also passed on the cost saving to customers on fixed and capped price tariffs. In March 2014, SSE also announced a household energy price freeze in GB until at least January 2016 (the longest price freeze in the sector to date). The move came in response to SSE’s: (i) research among its own customers, which found that 80 per cent. were concerned about prices rising in the next two years; (ii) ability to model fully the costs of the new ECO scheme and its impact on customer bills; and (iii) ability to secure successfully energy in long-term wholesale markets. In order to deliver its price freeze, SSE stated in March 2014 that it accepted that its profit margins from supplying customers with electricity and gas are unlikely to recover to the level seen in 2012/13 before 2016/17 at the earliest. In that period, it is now expecting to earn an annual profit margin across its entire Energy Supply business that is lower than the 4.2 per cent. (before tax) it achieved in 2012/13; and, within this, an annual profit margin in its household electricity and gas supply business in GB that is lower than the 6.4 per cent. (before tax) that it achieved in 2012/13.

Energy Efficiency Obligations

ECO was introduced in January 2013 and is a government-mandated energy efficiency programme that requires the largest energy companies to deliver certain household energy efficiency improvements targeted at specific vulnerable customer groups. SSE is fully supportive of the aims of ECO and in 2013/14 around 85,000 homes were helped through the scheme. [Nevertheless, and despite the welcome changes made by the UK government, SSE remains concerned about the impact of this scheme because: (i) it is volatile and clearly subject to significant political change; (ii) it has a negative impact on competition because of the exclusion of smaller suppliers; and (iii) the cost of this and other government schemes levied on energy bills is not being paid for fairly.]

Once the ECO comes to an end in 2017, SSE believes that nationally significant infrastructure projects such as insulating the UK’s housing stock should be government-led, funded through general taxation and have far greater local authority involvement. In the meantime, SSE welcomes efforts to enhance the level of transparency in how the costs of delivering ECO are reported, as long as its ability to deliver the programme in the most cost-effective manner is not compromised. It has responded to the Department of Energy & Climate Change’s (“**DECC**”) request for information about ECO delivery. This has shown that the changes made by the UK government have reduced the costs of ECO and this has been reflected in a price reduction for all of SSE’s household customers and SSE’s

decision to freeze its tariffs in GB until at least 2016. However, the programme remains inherently complicated and delivery costs are unpredictable. SSE will continue to work with DECC to ensure that the programme is delivered in the most cost-effective manner possible.

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. SSE provides heating, hot water and electrical maintenance through SSE's Home Services. It currently has over 190,000 gas/electricity maintenance contracts. SSE's metering business undertakes meter reading operations and meter operator work in all parts of the UK. It also provides services to most electricity suppliers with customers in central southern England and the north of Scotland. It supplies and maintains meters and undertakes metering work in the commercial, industrial and generation sectors.

The number of SSE electricity and gas supply customers who receive bills based on actual meter readings now stands at 96.7 per cent., in line with last year. SSE Metering has also installed just over 22,500 AMR (automatic meter reading) meters which are read remotely. During 2013/14, SSE collected 8.43 million electricity readings and 5.63 million gas readings. SSE Contracting is involved in industrial, commercial and domestic mechanical and electrical contracting and in electrical and instrumentation engineering.

Wholesale

SSE's Wholesale segment comprises four different business areas: (i) Energy Portfolio Management ("EPM"); (ii) Generation; (iii) Gas Production; and (iv) Gas Storage.

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 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 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

SSE's primary objective for its Generation division is to maintain a diverse generation portfolio, including the largest amount of renewable energy capacity in the UK and Ireland.

This objective is underpinned by six principles that direct the operation of, and investment in, its Generation portfolio: (i) availability – to respond to customer demand and market conditions; (ii) capacity – to meet the electricity needs of domestic and small business customers; (iii) compliance – to comply with all safety standards and environmental and regulatory requirements; (iv) diversity – to avoid over-dependency on particular fuels or technologies; (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 11,665MW of capacity, which comprised at 31 March 2014: (i) 4,262MW of gas and oil fired capacity (GB); (ii) 1,068MW of gas and oil fired capacity (Ireland); (iii) 3,009MW of coal fired capacity (with biomass co-firing capacity) the c.1,360 reduction in coal capacity is due to closure of Uskmouth and Ferrybridge Units 1 and 2 in March 2014; and (iv) 3,326MW of renewable capacity (including hydro, pumped storage, onshore wind and offshore wind).

With this portfolio, SSE has the greatest fuel diversity for producing electricity among UK generators and retains one of the most flexible fleets. . It also makes SSE the largest generator of electricity from renewable sources across the UK 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 GB 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 GB;
- 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 GB 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, allocation of which will begin in October 2014, that will effectively fix the price received by generators for each unit of electricity produced from new low carbon sources (the Contract for Difference Feed-in Tariffs);
- a mechanism to address the security of supply challenges resulting from plant closures and the changing nature of electricity generation (the Capacity Market), with a first auction for capacity contracts planned for November 2014; and
- maximum emissions levels for electricity generation technologies (the Emissions Performance Standard).

Thermal Generation

Gas-fired

With reduced gas-fired generation capacity in operation and lower running periods due to low spark spreads, the amount of electricity generated by gas-fired power stations in which SSE has an ownership or contractual interest, including CHP, was 10.1TWh in 2013/14, compared with 8.7TWh during the same period in 2012/13.

SSE has three wholly-owned gas-fired power stations in GB: Keadby (Lincolnshire; 735MW); Medway (Kent; 700MW) and Peterhead (Aberdeenshire; 1,180MW). Each has been affected by the market conditions for such power stations:

- Keadby is mothballed, meaning it will take up to one year to restore to full operating condition. As a result, the decision to defer the tender process means Keadby will not be able to participate in the Supplemental Balancing Reserve (SBR) for the winter of 2014/15. It does not have TEC from 1 April 2014. Nevertheless, investment in the station in 2012/13 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 in 2012/13 to achieve greater efficiency and flexibility in operations; and
- Peterhead has Transmission Entry Capacity (TEC) of 400MW only. SSE recently signed a contract with National Grid company to provide ancillary support services to the electricity system in the north of Scotland for one year. The contract allows National Grid to call up to 780MW of Peterhead's 1,180MW of capacity to provide these support services. This means its capacity will be unavailable to the market unless called by National Grid. Meanwhile the station will benefit from investment of £15 million to enhance its efficiency and flexibility.

In Ireland construction of the new 460MW CCGT at Great Island, Co. Wexford is well advanced and the plant is expected to generate its first energy by August 2014 and be commissioned in the second half of 2014. The Single Electricity Market ("SEM") in Ireland has an effective capacity mechanism in place. This mechanism was an important factor in SSE's decision to progress with the Great Island development and means it has been able to proceed with investment in new thermal electricity generation plant in the Irish market, which is in contrast to the position in respect of the GB market. The SEM itself is expected to be subject to important changes designed to implement the EU 'target model' in electricity, about which consultations have begun. These consultations have looked at a wide range of issues and are expected to lead to wide-ranging SEM redesign, although the principles and objectives of such redesign, beyond compliance with the EU 'target model' have yet to be confirmed. This is likely to result in the biggest change to the SEM since it was created in 2007 and SSE is working to ensure that changes safeguard supplies of electricity at a price that is affordable to customers, while supporting continuing investment in electricity in Ireland.

Despite currently experiencing short term market challenges, gas fired plant will play an increasingly important role in electricity generation driven by its: (i) relatively low capital costs; (ii) flexibility to support increasing amounts of generation from on- and offshore wind farms; (iii) short construction time; (iv) high thermal efficiency; and (v) its status as the cleanest of the fossil fuel technologies. As a result SSE will continue to pursue options for Combined Cycle Gas Turbine ("CCGT") in GB including sites under development at Abernedd (South Wales), Keadby (Lincolnshire), and Seabank (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 are close to being 'shovel ready' and others such as Keadby 2 are at an advanced stage of development, continuing uncertainty surrounding the operation of a future Capacity Market and clear market signals suggesting the need for increased gas-fired generation means that SSE does not expect to take any final investment decisions to contract new plant until at least 2016. This will effectively mean no new capacity for the GB market will come into operation until 2017/18 at the earliest, given the lead times for constructing new CCGT.

Coal

During the financial year ended 31 March 2014, SSE's 3,009MW of coal fired power stations, located at Fiddler's Ferry, Ferrybridge and Uskmouth, generated 16.6TWh of electricity, compared with 20.6TWh during the previous year.

While low coal prices have resulted in favourable operating conditions for coal-fired plant in recent years, emissions regulations – including the constraints imposed by the Industrial Emissions Directive ("IED"), the

introduction of the Carbon Price Support Rate, and the introduction of full auctioning of EU carbon allowances – have begun to weigh heavily on the longer term viability of thermal generation plant.

On 1 April 2013 the UK government introduced a new Climate Change Levy tax in the form of the Carbon Price Support Rate. This added a cost of around £5/tonne of CO₂ emissions in 2013 for fossil-fuelled generation in GB, 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.

All of the capacity at Fiddler's Ferry and Units 3 and 4 at Ferrybridge (just over 3,000MW in total) is compliant with the Large Combustion Plant Directive ("LCPD") and able to run beyond 2015. Fiddler's Ferry and all of SSE's gas-fired plant has been opted-in to the Transitional National Plan, and Units 3 and 4 at Ferrybridge have been opted in to the Limited life Derogation ("LDD") option under the IED. SSE has completed a trial investment on one 485MW unit at its Fiddlers Ferry site, which has, reduced the emissions of NO_x (nitrogen dioxide) that would enable increased generation under the IED Transitional National Plan. Further investment in similar technologies could be The viability of extending this solution to the other three units at the plant is still being assessed.

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, which is earned on top of revenue received from any electricity generated by the plant.

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 operational in 2015.

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 industrial-scale application of CCS technology at a gas-fired power station in the world and capture up to 10 million tonnes of CO₂ over a 10-year period. 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.

Gas Production

SSE's upstream portfolio is 100 per cent. gas weighted, with the primary reason for owning gas assets being to secure long term supply of physical gas at a 'fixed' cost, to enable it to effectively meet the energy needs of its customers and generation portfolio. As at 31 March 2014, SSE's upstream portfolio is estimated to hold in excess of 2.6 billion therms of reserves. The volume and production profile of the assets represents a secure and fixed-price supply of gas that can meet around 25 per cent. of the forecast demand from SSE's domestic gas customers over the next three years. The Gas Production business continued to perform well and benefitted strongly from the contribution of the new Sean gas field assets acquired in April 2013. The increased output from the expanded asset base was partially offset by forecast and normal production decline rates from existing wells. Total output in the year to 31 March 2014 was 414.1 million therms, compared with 183.8 million therms in the same period last year.

Gas Storage

SSE has an ownership interest in two major gas storage facilities in East Yorkshire: (i) Hornsea (Atwick); and (ii) Aldbrough. The primary objective of these facilities is to maximise safely the availability of the plant to import and export gas. Hornsea provided 267 million cubic metres (mcm) of gas storage capacity to its customers during the financial year to 31 March 2014. It accounts for around 5 per cent. of the total gas storage in the UK and 12 per cent. of deliverability. Aldbrough is one of the UK's newest and largest gas storage facilities, which SSE (66.7 per cent. share) has developed with Statoil (UK) Ltd. All nine caverns were in operation during 2013/14, providing a total capacity of up to 270 MCM, although available capacity currently remains lower due to unplanned outages on two of the nine caverns. It is anticipated that the Aldbrough facility will ultimately provide ability to store up to a maximum of around 320mcm, and account for up to 20 per cent. of the UK's storage deliverability.

Renewable Generation

Based on renewable energy capacity in operation, SSE is the UK's largest generator of electricity from renewable sources and the largest generator of electricity from wind across the UK & Ireland. As at 31 March 2014 it had 2,783MW of renewable energy capacity in operation in GB (as well as 543MW in Ireland), including its share of joint ventures. The GB portfolio comprised (net): (i) 1,150MW of conventional hydro; (ii) 940MW of onshore wind; (iii) 355MW of offshore wind; (iv) 300MW pumped storage; and (v) 38MW dedicated biomass.

Output from around 1,900MW of SSE's capacity for renewable energy in GB qualifies for Renewable Obligation Certificates, the main financial support scheme for renewable energy in the UK. In the Republic of Ireland renewable generation receives policy support through the Renewable Energy Feed-in Tariff. Policy support for renewable generation in Northern Ireland is delivered through the Renewables Obligation, the same as in GB.

Total electricity output from all of SSE's renewable resources in GB (including pumped storage) was 8,089GWh in 2013/14. As SSE moves forward the next phase of its renewable energy development pipeline, it is focusing on projects that best allow the efficient allocation of resources and economies of scale. While the scale of overall development is likely to be lower than in recent years, the focus is on a consistent pipeline of new developments. To support future investment in onshore wind assets, both in operation and development, and as outlined in March 2014, SSE will recycle capital by adding to its established programme of selective disposals.

Hydro Electric Schemes

SSE's proposed Coire Glas (Loch Lochy) 600MW 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 commercial and regulatory challenges and therefore any final investment decision is unlikely to be taken in the foreseeable future.

Onshore Wind Farms

At 31 March 2014, SSE owned 940MW of onshore wind farm capacity in GB as well as 543MW in Ireland. Output from these assets in GB during the previous 12 months was 2,679GWh compared to 1,880GWh in the previous year. The additional output largely reflects the final commissioning of SSE's 350MW Clyde wind farm. At a cost of around £500 million the wind farm is SSE's largest and is capable of producing over 1,000GWh of electricity during a typical year. Its completion marked SSE's position as the largest generator of electricity from wind across GB and Ireland.

The following projects were in construction as at 31 March 2014 and are key components of SSE's portfolio of strategic onshore wind projects in GB: (i) Keadby (68MW) – adjacent to SSE's gas-fired power station in North Lincolnshire, Keadby wind farm is England's largest onshore wind farm with 34 turbines. Construction is largely complete, with all turbines erected and generating electricity;(ii) Strathy North (67MW) – located in Sutherland, this project is a significant development for SSE. Pre-construction work is now under way, which is due for completion in 2015; (iii) Dunmaglass (94MW) – Construction at this site south east of Inverness is well under way, enabling works are due to be completed shortly and the main construction work will follow thereafter. The site is scheduled for completion in 2016; and (iv) Langhope Rig (16MW) – Construction at this 10-turbine site in the

Scottish Borders is progressing well. Turbine erection will begin this summer and the site will be completed later in 2014.

In addition to these projects under construction, SSE has over 500MW of development projects currently in planning in GB. Two key projects Stronelairg (198MW) and Glencassley (53MW) received no objection from Highland Council during the planning process and are now with Scottish Ministers awaiting a consent determination, a further 300MW of new onshore wind farm projects are currently in pre-planning.

At 31 March 2013, SSE owned 543MW of onshore wind farm capacity in Ireland (including 88MW in Northern Ireland). In the period to March 14 both Athea (34MW) in County Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in County Derry, came into operation. Output from Athea qualifies for the ReFiT support mechanism in the Republic of Ireland while output from Glenconway will receive ROCs.

SSE is continuing to add to its onshore wind farm development portfolio in Ireland and at 31 March 2014 it comprised around; (i) 116MW in construction or pre-construction; and (ii) 56MW with consent for development. The largest pre-construction project is the consented 170MW (SSE share 112MW) Galway Wind Park development, where preconstruction ground works are currently taking place. Subject to a final investment decision, it is expected to enter construction towards the later part of 2014. SSE has around 100MW of other development projects currently in planning across Ireland.

Offshore Wind Farms

In line with its wider focus on streamlining and simplifying its business, and following the conclusion of a strategic review of its offshore wind development portfolio, 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 ("**Beatrice**") (up to 664MW, currently a 75:25 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 Contract for Difference).

The UK government's announcement provides the security needed to allow SSE and its partners to continue to invest in the engineering and procurement work required to maintain progress towards a final investment decision in early 2016. A final decision to invest in the project will only be made if SSE has been able to reduce its stake in the project from 75 per cent. at present to no more than 50 per cent. and the project provides the return on capital investment required to be compatible with the risks involved.

In addition to Beatrice, SSE has had an interest in four further offshore wind farm developments; (i) Galloper - SSE has decided not to take beyond the current phase of development its interest in the Galloper project (340MW, a 50:50 partnership between SSE and RWE Innogy). In the context of its wider capital and investment programme, SSE does not currently believe that the costs of constructing and operating Galloper, and the revenue likely to be earned from it once built, will provide a return on SSE's capital investment that will enable the project to compete successfully against other projects in SSE's wider investment portfolio over Galloper's planned construction timeline. As a result, SSE is working with its partner and other stakeholders to secure the maximum possible value for its interest in the project; (ii) Round 3 - SSE currently participates in the development of two of the projects allocated under The Crown Estate's Round 3 site allocation process: SeaGreen (3,500MW), a 50:50 partnership between SSE Renewables and Fluor Limited, which has submitted consent applications to Marine Scotland for two wind farm areas in the Firth of Forth with a capacity of 525MW each in the 3.5GW Firth of Forth zone; and Forewind (7,200MW), a four-way partnership with RWE Innogy, Statoil and Statkraft, which has submitted a consent application to the Planning Inspectorate for four wind farm projects of up to 1,200MW each on Dogger Bank. SSE has decided that it will continue to support the progress of development work on SeaGreen and Forewind with the objective of securing the necessary consents for construction, but that it will not extend beyond that the scope of its commitments to the projects in the near term; and (iii) Islay - SSE had proposed to develop an offshore wind farm off the coast of Islay with capacity of up to 690MW and while it will continue to work with

other stakeholders in relation to the development, it will not be investing further in the project in the foreseeable future.

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 will follow later this year. SSE is working with Scottish Enterprise to find a manufacturer for the third and final berth at the site.

Borrowings and facilities

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average debt maturity as at 31 March 2014 was 8.4 years, compared with 8.4 years at 31 March 2013 and 9.3 years at 31 March 2012.

SSE's debt structure remains strong, with around £5.44 billion of medium-to-long-term borrowings as at 31 March 2014 in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Around £0.6 billion of medium-to-long-term borrowings will mature in the year to 31 March 2015. 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 30 June 2014 (with sterling equivalents (where applicable) as at that date) are 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 ● £350 million 6.25 per cent. bonds due 2038 ● €600 million 2.00 per cent. bonds due 2020 (£480.2 million of principal outstanding) ● €500 million 2.375 per cent. bonds due 2022 (£415.0 million of principal outstanding) ● £1.3 billion revolving credit facility maturing 2018 (undrawn) ● £200 million revolving credit facility maturing 2018 (undrawn) ● £326.0 million non-recourse funding relating to street lighting projects ● £500 million Bank Term loan maturing September 2014 ● £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"> ● £3.0 million external bank debt
SHEPD	<ul style="list-style-type: none"> ● £125.9 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

	<ul style="list-style-type: none"> • £116.7 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
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	<ul style="list-style-type: none"> • £600 million intercompany loan stock due to SSE
SSE Generation Ireland Limited	<ul style="list-style-type: none"> • £61.8 million intercompany loan stock due to SSE

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 the Ordinary Shares. The hybrid capital for the SSE Group as at 31 March 2014 (with sterling equivalents (where applicable) as at that date) are as follows:

SSE	<ul style="list-style-type: none"> • £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
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Investment priorities

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

Investment and capital expenditure

In 2010, SSE said that it expected its investment and capital expenditure will be in the range of £1.5 billion to £1.7 billion in each of the five years to March 2015. In 2013/14, its investment and capital expenditure totalled £1,582.5 million compared with £1,485.5 million in the previous year.

In the four years from 2010, SSE's investment and capital expenditure totalled £6.2 billion. This has resulted in a significantly expanded asset base for SSE, including; (i) an increase of £1.35 billion in the RAV of its electricity networks; (ii) an increase of around 1,000MW in its capacity for generating electricity from wind farms (resulting in SSE's wind farms producing 5.4TWh of electricity during 2013/14); and the Aldbrough gas storage facility, where the initial capacity is 270 million cubic metres, of which SSE owns a two thirds share.

In addition, SSE expects to complete the commissioning of the 460MW CCGT plant at Great Island, by the end of 2014.

SSE believes that the long-term nature of the assets which it owns and operates and those which it continues to develop, will be an important factor in meeting customers' energy requirement in the three decades.

Central to SSE's strategy is 'efficient' investment in a balanced range of economically-regulated and market-based energy businesses. Investment should be; (i) in line with SSE's commitment to strong financial management, including securing returns which are significantly 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 regulate on; 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 in 2014/15 and total around £3.9 billion (net of disposal proceeds received) over the three years to 2017/18. This total of £5.5 billion over the next four years 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 (this currently includes the CCGT at Great Island in Ireland, SSE's share of the new multi-fuel plant at Ferrybridge and onshore wind farm capacity).

The transmission upgrades include the planned link between Caithness and Moray that is required to transmit the large volume of electricity from renewable sources in the north of Scotland. On 2 April 2014, OFGEM stated that its 'initial view is that there is a need for a reinforcement of the transmission system in northern Scotland in the future' and sought views on the merits of the proposed subsea cable solution or an alternative option onshore. Its consultation ends in May 2014. The subsea project has a forecast investment requirement of around £1.3 billion (2012/13 prices).

In addition, SSE is continuing to develop options for new assets such as onshore wind farms. Its commitment to financial discipline means that it will monetise value from existing investments and assets in order to support future investment in 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, supported 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) additions to the asset base in key businesses, including economically-regulated electricity networks; (ii) fuel for electricity in the form of renewable sources of energy, supporting a reduction in the CO2 intensity of electricity generated; (iii) a hedge against prices for fossil fuels; (iv) well maintained existing and new modern capacity for generating electricity; and (v) additional cashflows and profits to support continuing dividend growth.

Regulatory Environment

Electricity Generation

The electricity industry in the UK 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 UK market was put in place in 2005 when the England and Wales market rules were applied to Scotland, thereby creating the British Electricity Trading and Transmission Arrangements ("BETTA"). Significant modifications to the BETTA market operating rules require approval by the Authority.

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

Following the passing of the Energy Act 2013, a number of reforms to the UK 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 2013 the UK government also 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. The environmental impact of the operation of large generating stations in the UK 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 ("UKAS").

Electricity and Gas Supply

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

OFGEM'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 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 tacit coordination; vertical integrations and barriers to entry; and increased supplier profits. As a result, OFGEM is proposing a reference to the CMA to investigate the supply and acquisition of energy in GB. The consultation on

OFGEM's proposal closed in May 2014 and the decision on whether a reference will be made is expected in the summer.

In July 2014 OFGEM secured an additional £3.3 million from SSE and UKPN after its investigation into the companies' performance during the exceptional storms in December 2013 in the south of England. This is in addition to the £4.7 million already paid out to consumers under the guaranteed standards and in goodwill payments. This brings the total paid out by the companies to £8 million.

OFGEM's findings showed that while SSE and UKPN's southern arms were particularly badly hit by the storms, they could have done more to get customers reconnected faster and to keep them better updated on what was happening. In light of these findings, the companies have agreed to make donations totalling £3.3 million to organisations like British Red Cross, which play an important role in helping vulnerable customers during power cuts and severe weather.

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'.

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. SHEPD and SEPD published their Business Plans for RIIO-ED1 period on 1 July 2013, with a further update published in March 2014 following feedback from

OFGEM. An Initial Determination will be published by OFGEM in July, followed by a Final determination in November, which will set the base revenue for SHEPD and SEPD for the 8 years from 1 April 2015.

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.

TAXATION

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

1 Interest on the Notes

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

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

In all other cases, interest will generally be paid by the relevant 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. However, there should be no withholding or deduction for or on account of United Kingdom income tax if the relevant interest is paid on Notes with a maturity date of less than one year from the date of issue and which are not issued under arrangements the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more. If any amount must be withheld by the relevant Issuer on account of United Kingdom tax from payments of interest on the Notes then such Issuer will, subject to the provisions of Condition 9 of the Terms and Conditions of the Notes, pay such additional amounts as will result in the Noteholders or Couponholders receiving an amount equal to that which they would have received had no such withholding been required.

Interest on the Notes constitutes UK source income for UK tax purposes and, as such, may be subject to UK 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 Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a corporate Noteholder, carries on a trade through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable, in which case tax may be levied on the UK branch or agency, or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

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

2 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 Notes, details of the holders or beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information and documents in connection with transactions relating to the

Notes. Information may be required to be provided by, amongst others, the holders of the Notes, persons by (or via) whom payments derived from the Notes 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 Notes 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

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

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

4 EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident or certain limited types of entities established in that other Member State. However, for a transitional period Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (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 Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. The ending of this 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, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. 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 Noteholders is drawn to Condition 9 of the Terms and Conditions of the Notes.

5 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 Notes (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 Notes where at least one party is a financial institution, and at least one party is established or deemed to be established in a participating Member State.

Notwithstanding the Commission's Proposal, a joint statement issued in May 2014 by the participating Member States (other than Slovenia) indicated an intention to implement the FTT progressively, such that it would initially apply to transactions involving shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The proposed FTT remains subject to negotiation between the participating Member States and the timing remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

6 FATCA Withholding

Pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 ("FATCA"), non-U.S. financial institutions that enter into agreements with the IRS ("IRS Agreements") or become subject to provisions of local law intended to implement an inter-governmental agreement ("IGA legislation") entered into pursuant to FATCA, may be required to identify "financial accounts" held by U.S. persons or entities with substantial U.S. ownership, as well as accounts of other financial institutions that are not themselves participating in (or otherwise exempt from) the FATCA reporting regime. In order (a) to obtain an exemption from FATCA withholding on payments it receives and/or (b) to comply with any applicable IGA legislation, a financial institution that enters into an IRS Agreement or is subject to IGA legislation may be required to (i) report certain information on its U.S. account holders to the government of the United States or another relevant jurisdiction and (ii) withhold 30 per cent. from all, or a portion of, certain payments made to persons that fail to provide the financial institution information, consents and forms or other documentation that may be necessary for such financial institution to determine whether such person is compliant with FATCA or otherwise exempt from FATCA withholding.

Under FATCA, withholding is required with respect to payments to persons that are not compliant with FATCA or that do not provide the necessary information or documentation made on or after (i) 1 July 2014 in respect of certain U.S. source payments, (ii) 1 January 2017, in respect of payments of gross proceeds (including principal repayments) on certain assets that produce U.S. source interest or dividends and (iii) 1 January 2017 (at the earliest) in respect of "foreign passthru payments" and then only on "obligations" that are not treated as equity for U.S. federal income tax purposes and that are issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register.

On 12 September 2012, the U.K. and the U.S. entered into the Intergovernmental Agreement to Improve International Tax Compliance and to Implement FATCA which was amended by an Exchange of Notes between the U.K. and U.S. governments dated 3 June 2013 and 7 June 2013 (the "U.K. IGA"). Section 222 of the Finance Act 2013 empowers Her Majesty's Treasury to make regulations giving effect to the U.K. IGA; the latest such regulations came into force on 30 June 2014. The U.K. IGA provides, *inter alia*, that the governments of the United States and the United Kingdom are committed to work together to develop a practical and effective alternative approach to achieve the policy objectives of foreign passthru payment and gross proceeds withholding. It is not yet certain how the U.S. and U.K. will address withholding on foreign passthru payments or whether such withholding will be required at all.

Whilst the Notes are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any Paying Agent and the Common Depository or Common Safekeeper, 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 Notes. The Agency Agreement expressly contemplates the possibility that the Notes may be exchanged for Definitive Notes 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 Notes will only be printed in remote circumstances.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 31 July 2014 (as amended or supplemented as at the Issue Date in respect of the relevant Notes, the “**Dealer Agreement**”) between the Issuers, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

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

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

Selling Restrictions

United States

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

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

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

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

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

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

United Kingdom

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

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

Japan

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

General

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

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

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

FORM OF FINAL TERMS

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

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

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 31 July 2014 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [original date] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated 31 July 2014. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated 31 July 2014 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [original date] [and the supplemental Prospectus(es) to it dated [●]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●]].

- | | | |
|---|------------------------------------|--|
| 1 | Issuer: | [SSE plc]/
[Scottish Hydro Electric Power Distribution plc]/
[Scottish Hydro Electric Transmission plc]/
[Southern Electric Power Distribution plc] |
| 2 | (i) [Series Number:] | [●] |
| | (ii) [Tranche Number:] | [●] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount of Notes: | [●] |
| | (i) [Series:] | [●] |
| | (ii) [Tranche:] | [●] |

- (iii) [Date on which the Notes become fungible: Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [●] on [●]/the Issue Date/ exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [26] below [which is expected to occur on or about [●]].]
- 5 Issue Price: [●] per cent, of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●] [and integral multiples of [●] in excess thereof up to and including [●]. No notes in definitive form will be issued with a denomination above [●]
- (ii) Calculation Amount: [●]
- 7 (i) Issue Date: [●]
- (ii) Interest Commencement Date: [[●]/Issue Date/Not Applicable]
- 8 Maturity Date: [●]
- 9 Interest Basis: [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[RPI Linked]
(further particulars specified below)
- 10 Redemption/Payment Basis: [Redemption at par]
[RPI Linked Redemption]
- 11 Change of Interest or Redemption/Payment Basis: [●]/Not Applicable
- 12 Put/Call Options: [General Put]
[Restructuring Event Put]
[Change of Control Put]
[SSE Restructuring Event Put]
[Issuer Call]
- 13 [[Date [Board] approval for issuance of Notes obtained:] [●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (i) Rate(s) of Interest: [●] per cent, per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount(s): [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [Actual/Actual][Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]

		[30E/360 (ISDA)]
		[Actual/Actual (ICMA)]
	(vi) [Determination Dates:	[[•] in each year/[Not Applicable]]
15	Floating Rate Note Provisions:	[Applicable/Not Applicable]
	(i) Interest Period(s):	[•]
	(ii) Specified Interest Payment Dates:	[•]
	(iii) First Interest Payment Date:	[•]
	(iv) Interest Period Date:	[•]
	(v) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(vi) Business Centre(s):	[•]
	(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]
	(ix) Screen Rate Determination:	
	– Reference Rate:	[LIBOR/EURIBOR]
	– Interest Determination Date(s):	[•]
	– Relevant Screen Page:	[•]
	(x) ISDA Determination:	
	– Floating Rate Option:	[•]
	– Designated Maturity:	[•]
	– Reset Date:	[•]
	– [ISDA Definitions:	2006]
	(xi) Linear Interpolation:	[Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
	(xii) Margin (s):	[+/-][•] per cent. per annum
	(xiii) Minimum Rate of Interest:	[•] per cent. per annum
	(xiv) Maximum Rate of Interest:	[•] per cent. per annum
	(xv) Day Count Fraction:	[Actual/Actual][Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]
16	Zero Coupon Note Provisions:	[Applicable/Not Applicable]
	(i) Amortisation Yield:	[•] per cent. per annum
	(ii) Day Count Fraction in relation to	[Actual/Actual] [Actual/Actual (ISDA)]

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

PROVISIONS RELATING TO REDEMPTION

18	Call Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
19	General Put Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]

- 20 Restructuring Event Put Option: [Applicable/Not Applicable]
- (i) Restructuring Event Redemption Amount: [•]
- (ii) Put Period: [•]
- (iii) Put Date: [•]
- 21 Change of Control Put Option: [Applicable/Not Applicable]
- (i) Change of Control Redemption Amount: [•]
- (ii) Put Period: [•]
- (iii) Put Date: [•]
- 22 SSE Restructuring Event Put Option: [Applicable/Not Applicable]
- (i) SSE Restructuring Event Redemption Amount: [•]
- (ii) Put Period: [•]
- (iii) Put Date: [•]
- 23 Final Redemption Amount of each Note: [[•] per Calculation Amount]
- [In cases where the Final Redemption Amount is RPI Linked:
- (i) Party responsible for calculating the Final Redemption Amount (if not the Calculation Agent): [•]/[Not Applicable]
- (ii) Determination Date(s): [•]
- (iii) Payment Date: [•]
- (iv) Minimum Final Redemption Amount: [•] per Calculation Amount
- (v) Maximum Final Redemption Amount: [•] per Calculation Amount]
- 24 Early Redemption Amount:
- Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption [•]
- 25 Indexation: [Applicable/Not Applicable]
- (i) Base Index Figure: [•]
- (ii) Reference Gilt: [•]
- (iii) Index Figure applicable: [3 month lag]/[8 month lag]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 26 Form of Notes: Bearer Notes
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes

on [●] days' notice]

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Registered Note]

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

THIRD PARTY INFORMATION

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

Signed on behalf of the Issuer:

By:
Duly authorised

PART B—OTHER INFORMATION

1 LISTING

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

2 RATINGS

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

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

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

4 [Fixed Rate Notes only — YIELD

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

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

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

6 OPERATIONAL INFORMATION

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

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 6 August 2014. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (2) Each Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The update of the Programme was authorised by (a) resolutions of the Board of Directors of SSE passed on 19 May 2014, (b) resolutions of the Board of Directors of SHEPD passed on 25 July 2014, (c) resolutions of the Board of Directors of SHE Transmission passed on 25 July 2014 and (d) resolutions of the Board of Directors of SEPD passed on 25 July 2014, respectively.
- (3) There has been no significant change in the financial or trading position of (a) SSE or the SSE Group since 31 March 2014 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2013.
- (4) There has been no material adverse change in the prospects of (a) SSE or the SSE Group since 31 March 2014 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2013.
- (5) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SSE, SHEPD, SHE Transmission or SEPD (as the case may be) is aware) involving (a) SSE or any of its subsidiaries or (b) SHEPD, SHE Transmission or SEPD during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of SSE and/or its subsidiaries or SHEPD, SHE Transmission or SEPD (as applicable).
- (6) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of any of the Paying Agents:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Memorandum and Articles of Association of each Issuer;

- (iv) the published annual report and audited consolidated financial statements of SSE for the financial years ended 31 March 2013 and 31 March 2014, respectively, and the audited financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2012 and 31 March 2013, respectively;
- (v) each Final Terms;
- (vi) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

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

- (9) KPMG Audit Plc, Chartered Accountants (regulated by the Institute of Chartered Accountants of England and Wales) rendered unqualified audit reports on (i) the consolidated financial statements of SSE for the financial years ended 31 March 2013 and 31 March 2014, respectively and (ii) the financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2012 and 31 March 2013, respectively.
- (10) The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.
- (11) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for any of the Issuers, and/or their affiliates in the ordinary course of business.

REGISTERED OFFICES OF THE ISSUERS

SSE plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Scottish Hydro Electric Power Distribution plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Scottish Hydro Electric Transmission plc

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Southern Electric Power Distribution plc

55 Vastern Road
Reading
Berkshire RG1 8BU

ARRANGER

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.

One Canada Square
44th Floor
London E14 5AA

Banco Santander, S.A.

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

Barclays Bank PLC

5 The North Colonnade
Canary Wharf
London E1 4 4BB

BNP Paribas

10 Harewood Avenue
London NW1 6AA

Lloyds Bank plc

10 Gresham Street
London EC2V 7AE

Mitsubishi UFJ Securities International plc

Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA

National Australia Bank Limited

88 Wood Street
London EC2V 7QQ

RBC Europe Limited

Riverbank House
2 Swan Lane
London EC4R 3BF

The Royal Bank of Scotland plc

135 Bishopsgate
London EC2M 3UR

TRUSTEE

BNY Mellon Corporate Trustee Services Limited

One Canada Square
London E14 5AL

ISSUING AND PAYING AGENT, TRANSFER AGENT AND CALCULATION AGENT

The Bank of New York Mellon, London Branch

One Canada Square
London E14 5AL

REGISTRAR, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon (Luxembourg) S.A.

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

AUDITORS TO EACH ISSUER

KPMG Audit Plc

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

LEGAL ADVISERS

To each Issuer as to English law

Freshfields Bruckhaus Deringer LLP

65 Fleet Street
London EC4Y 1HS

To SHEPD, SHE Transmission and SSE as to Scottish law

CMS Cameron McKenna LLP

Saltire Court
20 Castle Terrace
Edinburgh EH1 2EN

To the Dealers and the Trustee as to English law

Linklaters LLP

One Silk Street
London EC2Y 8HQ