

## 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 2012 (included on pages 90 to 167 of the 2012 Annual Report of SSE) and 2013 (included on pages 104 to 183 of the 2013 Annual Report of SSE), respectively;
- (ii) the audited financial statements of SHEPD for the financial years ended 31 March 2011 (included on pages 13 to 33 of the 2011 Statutory Accounts of SHEPD) and 2012 (included on pages 13 to 34 of the 2012 Statutory Accounts of SHEPD), respectively;
- (iii) the audited financial statements of SHE Transmission for the financial years ended 31 March 2011 (included on pages 13 to 27 of the 2011 Statutory Accounts) and 2012 (included on pages 13 to 28 of the 2012 Statutory Accounts), respectively; and
- (iv) the audited financial statements of SEPD for the financial years ended 31 March 2011 (included on pages 13 to 34 of the 2011 Statutory Accounts of SEPD) and 2012 (included on pages 13 to 34 of the 2012 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, and
- (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.

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. In March 2013, OFGEM proposed changes to its enforcement regime to deliver credible deterrence and meaningful

consequences for businesses that fail consumers and do not comply. This is intended to complement its Retail Market Reforms which include new enforceable standards of conduct. These changes could have an 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 affect on its operations and/or financial position of the SSE Group.

#### ***Competition and Market Risks***

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

#### ***Health and Safety***

Many key activities relating to electricity, 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. The UK government is legislating for a major process of electricity market reform in Great Britain ("GB"), significant details of which have yet to be confirmed. This means there is significant uncertainty about the future shape of the electricity market in GB. Government is also legislating through the current Energy Bills for 'backstop' powers which would allow the Department of Energy and Climate Change ("DECC") ministers to direct changes to energy supply licences, subject to consultation. Uncertainty also 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.

### ***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 adequately respond to the risks posed by climate change may represent added reputational risk.

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

### ***Energy Volumetric Risk and Other Weather Related Risks***

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

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

### ***Reliance on IT Systems***

The SSE Group relies on a number of key IT systems to manage its various business activities, including plant operation, networks, customer service activities, financial activities and energy trading operations. Failure to plan and execute suitable contingencies in the event of disruption of critical IT systems could materially adversely affect the 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. Capital and investment expenditure is expected to be around £1.5 billion during the financial year to 31 March 2014, including expenditure to be incurred on the combined cycle gas turbine ("CCGT") CCGT development at Great Island that was acquired in October 2012 and which is currently in construction. There are four main categories in SSE's investment and capital expenditure plans to March 2015 and beyond: (i) economically-regulated expenditure on electricity transmission upgrades; (ii) economically-regulated electricity distribution expenditure plus essential maintenance of other assets; (iii) expenditure that is already committed to development of new assets such as the CCGT at Great Island, the 'multi-fuel' plant at Ferrybridge and new wind farms; (iv) expenditure that is not yet committed but which could be incurred to support the development of new assets. In addition to its own capital and investment expenditure programme, SSE, 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 effectively manage the joint venture assets could result in reputational damage or destruction in value.

## **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*

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 within its jurisdiction to (or for the benefit of) an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The 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 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.

If a payment were to be made or collected through a Member State which has opted for a withholding system or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. 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.

#### *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 payment 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 Depositary 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.

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

### *Change of law*

The 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.*

<b>Issuers:</b>	SSE plc Scottish Hydro Electric Power Distribution plc Scottish Hydro Electric Transmission plc Southern Electric Power Distribution plc
<b>Description:</b>	Euro Medium Term Note Programme
<b>Size:</b>	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.
<b>Arranger:</b>	The Royal Bank of Scotland plc
<b>Dealers:</b>	Banco Bilbao Vizcaya Argentaria, S.A. Banco Santander, S.A. Barclays Bank PLC BNP Paribas Lloyds TSB 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 “ <b>Permanent Dealers</b> ” 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 “ <b>Dealers</b> ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Trustee:</b>	BNY Mellon Corporate Trustee Services Limited
<b>Issuing and Paying Agent, Transfer Agent and Calculation Agent:</b>	The Bank of New York Mellon, London Branch
<b>Registrar, Paying Agent and Transfer Agent:</b>	The Bank of New York Mellon (Luxembourg) S.A.
<b>Method of Issue:</b>	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ <b>Series</b> ”) 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 “ <b>Tranche</b> ”) on the same or different issue dates. The specific terms of each Tranche will be completed in the final terms (the “ <b>Final</b>



**Terms**”).

<b>Issue Price:</b>	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
<b>Form of Notes:</b>	The Notes may be issued in bearer form (“ <b>Bearer Notes</b> ”) or in registered form (“ <b>Registered Notes</b> ”) 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 “ <b>Global Certificates</b> ”.
<b>Clearing Systems:</b>	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.
<b>Initial Delivery of Notes:</b>	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.
<b>Currencies:</b>	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.
<b>Maturities:</b>	Subject to compliance with all relevant laws, regulations and directives, any maturity between one month and 60 years.
<b>Specified Denomination:</b>	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).
<b>Fixed Rate Notes:</b>	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
<b>Floating Rate Notes:</b>	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:**

With the exception of zero-coupon Notes and subject to any purchase and cancellation or early redemption, the Notes will be redeemed at par. 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 2 August 2013 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 2 August 2013 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 maybe).
- (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).

- (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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” 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 **D<sub>1</sub>** is greater than 29, in which case **D<sub>2</sub>** 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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” 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 **D<sub>2</sub>** 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:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y<sub>2</sub>**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M<sub>1</sub>**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M<sub>2</sub>**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D<sub>1</sub>**” 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 **D<sub>1</sub>** will be 30; and

“**D<sub>2</sub>**” 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 **D<sub>2</sub>** 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).

(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), <sup>1</sup>[Condition 6(e)(ii)], <sup>2</sup>[Condition 6(e)(iii)] or <sup>2</sup>[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), <sup>1</sup>Condition 6(e)(ii), <sup>2</sup>[Condition 6(e)(iii)] or <sup>2</sup>[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

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<sup>1</sup> Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

<sup>2</sup> Only applicable where SSE is the Issuer.

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), <sup>1</sup>Condition 6(e)(ii), <sup>2</sup>[Condition 6(e)(iii)] or <sup>2</sup>[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.
- (c) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part on any Interest Payment Date (if this Note is either a Floating Rate Note or a RPI Linked Note) or at any time (if this Note is neither a Floating Rate Note nor a RPI Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue 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. 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.
- (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.

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.

- (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.

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 <sup>1</sup>[Restructuring Event Put Event], <sup>2</sup>[Change of Control Put Event] or <sup>2</sup>[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 <sup>1</sup>[Restructuring Event Put Event], <sup>2</sup>[Change of Control Put Event] or <sup>2</sup>[SSE Restructuring Event Put Event] and the procedure for exercising the <sup>1</sup>[Restructuring Event Put Option], <sup>2</sup>[Change of Control Put Option] or <sup>2</sup>[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 <sup>1</sup>[Rating Downgrade], <sup>2</sup>[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 <sup>1</sup>[a Restructuring Event, a Negative Rating Event or a Potential Restructuring Event (as defined in the Trust Deed)], <sup>2</sup>[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

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<sup>1</sup> Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

<sup>2</sup> Only applicable where SSE is the Issuer.

Change of Control] or <sup>2</sup>[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 <sup>1</sup>[Restructuring Event] or <sup>2</sup>[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:** This Condition 6(f) applies only to RPI Linked Notes. If the Index (as defined in Condition 7) ceases to be published or any changes are made to it which, in the opinion of the Expert (as defined in Condition 7), constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Noteholders and if the Expert fails within 30 days after its appointment (or such longer period as the Trustee considers reasonable), or states to the Issuer and the Trustee that it is unable, to recommend for the purposes of the Notes any adjustments to the Index or any substitute index (with or without adjustments) as described in Condition 7(b)(iii), the Issuer shall, within 14 days after the expiry of such period or (as the case may be) after the date of such statement, give notice (which shall be irrevocable and shall state the date fixed for redemption which shall be not more than 15 days after the date on which the notice is given) to redeem the Notes then outstanding, at a price equal to their outstanding nominal amount 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, 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 RPI LINKED NOTES

This condition applies to RPI Linked Notes only:

(a) **Index Ratio:**

- (i) 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 (0.000005 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 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<sub>m-3</sub>**” 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<sub>m-2</sub>**” 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<sub>m-8</sub>**” 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<sub>m-7</sub>**” 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 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 unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

- (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).
- (h) **Non-Business Days:** If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
  - (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
  - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

## 9 TAXATION

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

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

- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or
- (d) **Payment by another Paying Agent:** (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.

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:

- (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, <sup>1</sup>[provided that if neither the Issuer nor any Relevant Subsidiary holds the Distribution Licence, the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (A) and (B) shall apply)]; or
- (vii) **Insolvency:** the Issuer or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Section 1 of the Insolvency Act 1986; or

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<sup>1</sup> Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

- (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, <sup>1</sup>[(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 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.

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<sup>1</sup> Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

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

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

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

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

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

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

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

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

consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash;

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

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

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

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

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

by virtue of the provisions of 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. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

## 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	Non-Executive Director
Katie Bickerstaffe	Non-Executive Director

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

- **Lord Smith** of Kelvin is Chairman of the Weir Group plc, of UK Green Investment Bank plc, of Glasgow 2014 Limited and 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 (from April 2013).
- **Richard Gillingwater CBE** is Chairman of Henderson Group plc and CDC Group. 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 TheCityUK 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 (from June 2013) and of Big Society Capital Ltd and of Scotland’s Futures Forum. She is also a member of (Scotland’s) First Minister’s Council of Economic Advisers and President of the Scottish Council for Development and Industry. Lady Rice is the Chairman of the Edinburgh International Book Festival and the Edinburgh Festivals Forum.



- **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 the 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 Macquarie, where he is also a consultant. He is a non-Executive of A Proctor Group.
- **Katie Bickerstaffe** is Chief Executive – UK and Ireland of Dixons Retail plc.

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

## **Acquisitions and Investments**

### ***SSE Generation Ireland Limited***

In October 2012, SSE Generation Limited, a wholly owned subsidiary of SSE plc, completed the acquisition of SSE Generation Ireland Limited (formerly Endesa Ireland Limited) from Endesa Generacion S.A. for a total cash consideration of €350 million (£282 million). In addition to the transaction amount, SSE Group expects to incur a further €140million (£110 million) over three financial years to complete a 460MW CCGT (combined cycle gas turbine) currently under construction at Great Island, County. Wexford.

### ***Apollo, Minerva and Mercury Gas Fields***

On 1 December 2012, SSE, through its wholly owned SSE E&P UK Limited, agreed with Perenco to increase its equity stake in three producing gas fields in the Southern North Sea (Apollo, Minerva and Mercury). SSE paid a total cash consideration of £25.5 million.

SSE had a 35 per cent. equity interest in Apollo and Minerva, and a 26.67 per cent. equity interest in Mercury. As a result of this transaction, SSE's equity interest in all three fields increased to 50 per cent. Perenco hold the remaining 50 per cent. equity in the fields and are the Operator.

### ***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 off-site pre-construction works have already begun. SSE expects to begin full construction of the wind farm in late 2013 with an expected completion date of early 2016. Once constructed, the project will have an installed capacity of 99MW.

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 some 47,491 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:

<b>Name</b>	<b>Title</b>	<b>Significant Outside Activities</b>
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

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

### **Scottish Hydro Electric Transmission plc**

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

SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises almost 5,300 kilometres of high voltage overhead lines and underground cables covering 70 per cent. of the land mass of Scotland serving remote and, in some cases, island communities.

#### **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:

<b>Name</b>	<b>Title</b>	<b>Significant Outside Activities</b>
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

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 some 77,840 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**

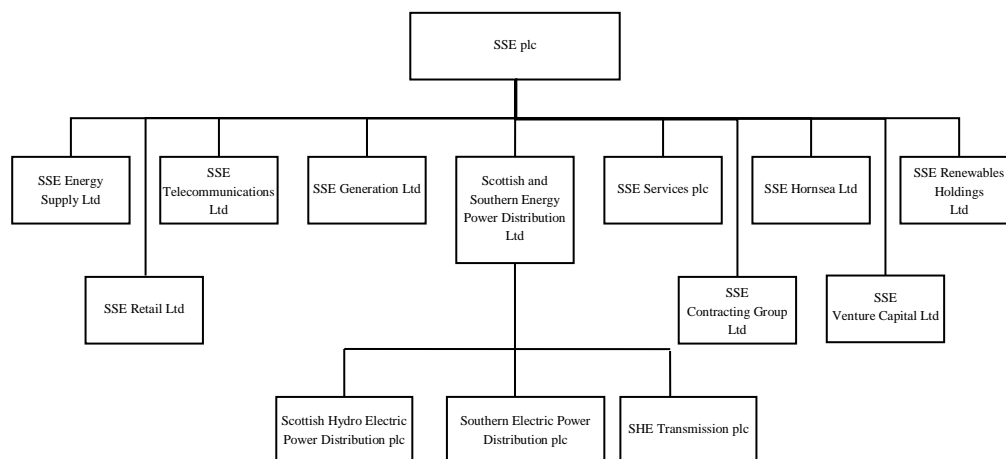
As at the date of this Prospectus, the members of the Board of Directors of SEPD, all of 55 Vastern Road, Reading RG1 8BU, United Kingdom are as follows:

<b>Name</b>	<b>Title</b>	<b>Significant Outside Activities</b>
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

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 2013



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. The balance between these activities means that: while energy is at their core, SSE has a diverse range of businesses; within those businesses, SSE has a diverse range of assets; and to add to those assets, SSE has a diverse range of investment options. This balance, diversity, growing asset base and range of investment options means that SSE has a broad platform from which to deliver the levels of profitability and long-term value required to support sustained real dividend growth. In addition, the risks to the achievement of that growth are contained by that balance and by the diversity of SSE’s businesses, assets and investment options. SSE’s core purpose is to provide the energy people need in a reliable and sustainable way.

SSE has identified five long-term priorities across its balanced range of businesses which reflect and are consistent with the changes under way at global, EU, UK and Irish levels. The long term priorities are: (i) efficiency, responsiveness and innovation in energy networks; (ii) gaining and retaining the trust of a growing number of household energy customers; (iii) breadth and depth in the provision of energy-related services to businesses and other organisations; (iv) competitive and sustainable energy procurement; and (v) flexible and ‘greener’ electricity production.

### 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 Regulatory Asset Value (“RAV”) of its economically-regulated ‘natural monopoly’ business is now £6.36 billion comprising around: (i) £1,050 million for electricity transmission; (ii) £2,915 million for electricity distribution; and (iii) £2,392 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 £334.2 million was invested by SHE Transmission in its network in the financial year to 31 March 2013, taking its total RAV to over £1 billion for the first time. In the financial year to 31 March 2014, SHE Transmission expects to incur capital expenditure of over £300 million and its RAV should reach around £1.6 billion by March 2015.

The base of SHE Transmission's plans for 2013 to 2021 is an approved £1.1 billion capital investment programme in 2009/10 prices, or £1.4 billion at expected out-turn prices, based on a future inflation of 3 per cent. There is flexibility to increase this very significantly, if required, to upgrade the transmission network during the period.

Within the £1.4 billion base capital programme, projects completed or under construction include: (i) work on upgrading and reinforcing the transmission network between Beaulieu and Dounreay which is now complete on time and within OFGEM's authorised budget; (ii) full construction work on the replacement of SHE Transmission's part of the line, from Beaulieu to Wharry Burn is now well under way; (iii) the first stage of the Beaulieu-Mossford project, to construct a new substation at Corriemoille is well under way; (iv) work on replacing the conductors of the 275kV transmission lines between Beaulieu and Blackhillock and Kintore to allow an increase in the capacity of the network to transmit electricity is well under way. A total of £246.1 million was invested in these projects during the financial year to 31 March 2013.

### ***Electricity Distribution***

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2013 was 41.6TWh. Capital expenditure in electricity distribution networks was £288.8 million in the financial year to 31 March 2013, taking the total for the 2010-15 Price Control to £761.1 million so far. This investment contributes to its priority of providing a good service to its customers by delivering a reliable supply of electricity. Investing in its network to maintain a reliable supply takes a number of forms including: (i) keeping assets in good condition through a regular programme of inspection, maintenance, refurbishment and replacement; (ii) investing in areas to reinforce the existing network or build new lines to provide an alternative supply should the existing line be damaged; (iii) fast response to faults with up to 1,000 people based in 40 sites in the south of England and north of Scotland; and (iv) communication with customers during planned and unplanned interruptions through telephone, website, email and social media.

SSE now restores within 12 hours to over 99 per cent. of customers who experience an unplanned interruption. To achieve this it has used a combination of fast response teams and innovative technologies to find and repair faults quickly.

Each year customer tariffs are set to recover the amount of money agreed with OFGEM during the Price Control review. In the financial year to 31 March 2013, electricity distribution charges made up 16 per cent. of an average GB household electricity bill.

### ***Gas Distribution***

SSE receives 50 per cent. of the distributable earnings from Scotia Gas Networks Limited ("SGN"), in line with its equity holding, and provides it with some corporate and management services.

By the end of the financial year ending 31 March 2013, SGN's total RAV was estimated to have reached £4.78 billion. During the financial year to 31 March 2013, SGN invested £398.0 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 2013/14.

### ***Other Networks***

SSE's 'other Networks' businesses (Lighting Services, Utility Solutions and Telecoms) are relatively small when compared with its economically-regulated energy networks, and they operate in tough and competitive markets. SSE remains the UK's and Ireland's leading street-lighting contractor.

SSE provides a comprehensive range of 'utility solutions'. It designs, builds, owns and operates and maintains cable and pipe networks for delivering electricity, gas, water and heat to existing new and commercial and residential developments in England, Wales and Scotland. It is therefore able to provide a one stop solution for multi-utility infrastructure requirements to customers in the development and construction sectors.

SSE Telecommunications Limited ("**SSE Telecoms**") provides high capacity resilient network and data centre services to the UK's cloud services, systems integration and telecoms industries.

The focus for the year ahead is the expansion of SSE Telecoms, which will reduce its cost to service high density business areas in metropolitan data centres where it sees the greatest growth and demand.

### **Retail**

#### ***Customer Relations***

SSE is the second largest energy supplier in the competitive market in Great Britain ("**GB**") and the second largest supplier in the competitive markets in Ireland. At 31 March 2013, it supplied electricity and gas to 9.47 million households and business accounts (4.87 million domestic electricity accounts in GB, 3.35 million domestic gas accounts in GB, 0.43 million business electricity and gas accounts; and 0.82 million electricity and gas accounts in Northern Ireland and Republic of Ireland) under the brands such as SSE, Scottish Hydro, Southern Electric, SWALEC and Atlantic in the GB market and Airtricity in the markets on the island of Ireland.

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

SSE appreciates that its core products of electricity and gas are not discretionary items (except, in some instances, in the extent of their use) but something people rely on to heat and power their homes and live comfortably. That means there is a legitimate regulatory, political and public interest in its activities and it is SSE's responsibility to provide value for money, fairness and transparency to customers.

In recent years, SSE has consistently led the energy supply industry in customer service and become a benchmark for other energy suppliers. To provide customers with the best possible value for money, SSE believes that it should deliver excellent customer service, simple products and fair prices.

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

- SSE topped the USwitch Customer Satisfaction Award run by uSwitch.com seven years in a row. In the most recent survey, in November 2012, SSE came top for Customer Service but came second for overall Customer Satisfaction Award; and
- the energy complaints league table, last published by Consumer Focus in July 2012, awarded SSE a five star rating with the lowest number of complaints to Ombudsman Services.

On 3 April 2013, OFGEM announced its decision to fine SSE £10.5 million for breaches of two Standard Licence Conditions: Notification of Domestic Supply Contract Terms; and Marketing to Gas/Electricity Domestic Customers. SSE apologised fully for the breaches and accepted the fine without appeal. This marked the conclusion of OFGEM's investigation and associated enforcement action, financial or otherwise, against SSE in relation to these breaches. Up to that point, SSE had been the only leading supplier in Great Britain that had not been subject of a finding of a breach of its supply licence conditions.

Breaches occurred for varying periods between October 2009 and September 2012, but mainly in the period to July 2011 when SSE became the first company to suspend doorstep energy sales in Great Britain. They related mainly to inadequate monitoring, auditing and execution of SSE's sales activities. SSE believes it worked hard and in good faith to implement changes to licence conditions made by OFGEM in 2009 and 2010 designed to ensure sales were conducted in a fairer and more transparent manner.

Nevertheless, it accepts unreservedly that it did not move fast or far enough in some areas and acknowledges readily that some of its processes were not as effective as they should have been. SSE estimates that around 23,000 customers may have moved to a more expensive energy supply contract as a result of its energy sales activity on the doorstep and at venues. OFGEM confirmed that the breaches identified had been remedied by SSE during the period of investigation and that OFGEM are now satisfied that there is no issue of ongoing breach. While the investigation was being undertaken, SSE took significant action to begin remedying the substantive issues raised. In addition to ending doorstep sales in GB, SSE has created a new Retail division, externally recruited a new Managing Director and developed new sales processes and related training for employees as well as new safeguards for customers.

To provide redress for customers affected, SSE introduced in December 2011 its Sales Guarantee setting aside up to £5 million to deal with historic issues to ensure that any household customer who shows that they switched their energy supply to SSE after being given inaccurate information or being misled will have any resulting financial loss made good. Although five of the six leading suppliers have been or are being investigated in this area, SSE remains the only leading energy supplier to offer such a guarantee.

In addition to the Sales Guarantee, in February 2013, SSE launched a new, separate Customer Service Guarantee which promised to meet a new set of customer service commitments or give customers £20 off their next bill.

### ***Retail Energy Prices***

SSE was disappointed to implement price increases in October 2012 for household gas and electricity supply in GB of an average of 9 per cent. The decision to increase prices was necessary due to: (i) rising costs in the average price in the wholesale energy markets to secure gas for the coming winter which was around 14 per cent. higher than it was for the winter before; the increasing cost of delivering gas and electricity to customers' homes through the gas and electricity transmission and distribution networks, which are determined by OFGEM and which are needed to finance necessary investment in the networks; and the cost of government economic and social initiatives; and (ii) the cost of government economic and social initiatives including the Carbon Emissions Reduction Target ("CERT") and WarmHomes Discount that suppliers are required to fund and pass to customers.

### ***Energy Efficiency Obligations***

SSE is focussing on delivering the new Energy Company obligation which is the next phase of the Government's mandatory energy efficiency programmes.

SSE has delivered the carbon savings set out by the CERT scheme and has contracts in place to ensure it meets its allocation under the Community Energy Saving Scheme ("CESP").

SSE complied with the CERT scheme in full but was unable to verify and report the delivery of some of the obligations to OFGEM before the reporting date. Following verification work with the Department of Work and Pensions ("DWP") SSE was able to show it delivered the obligations.

In relation to CESP, SSE acknowledges that despite best efforts it was not able to physically deliver all of the obligations by 31 December 2012. However contracts were in place shortly after for the delivery of the obligations in full.

OFGEM announced in 1 May 2013 that it will investigate SSE and five other energy companies' failure to achieve 100 per cent. of the CESP obligation by the cut-off date. SSE will co-operate fully with OFGEM as it considers further actions in relation to CESP.

### ***National Metering Business***

SSE's metering business undertakes meter reading operations and meter reading operator work in all parts of the UK. During the financial year to 31 March 2013, SSE collected 8.7 million electricity readings and 5.7 million gas readings. SSE is supporting the transition to smart meters. Around 53 million smart meters are due to be installed of which SSE is due to install 9 million. The target date for completion of the roll-out is the end of 2020.

### **Wholesale**

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

### ***Energy Portfolio Management***

In recent years, SSE has typically required around 10 million therms of gas per day to supply all its customers and to fuel its power stations, and around 150GWh of electricity per day to supply all its customers. Energy Portfolio Management ("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) wholesale trading.

In April 2013, SSE completed the acquisition from BP of a 50 per cent. non-operation interest in the Sean gas field in the southern North Sea, adding a further 1.1 billion therms of gas reserves to its existing exploration and production assets, and providing an important long term supply of physical gas at a 'fixed price'.

SSE has also agreed to a number of long-term gas supply contracts in recent years including: (i) a 10 year contract with Statoil for the annual supply of 500 million cubic meters of natural gas which commenced in October 2012; and (ii) a 10 year gas supply agreement of 790 million cubic meters per annum with Shell Energy Europe commencing in 2015.

### ***Generation***

SSE's strategic objective is for its Generation business to be the greenest, most flexible, non-nuclear generator.

This objective is underpinned by six core 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 requirements; (iv) diversity – to avoid over-dependency on particular fuels or technologies; (iv) flexibility – to ensure that changes in demand for electricity can be addressed; and (v) sustainability – to deliver an overall 50 per cent. cut in the CO<sub>2</sub> intensity of electricity produced.

SSE is maintaining and investing in a diverse and sustainable portfolio of thermal and renewable generation plant. In moving to a low 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 renewable.

SSE currently owns or has an ownership interest in over 13,000MW of capacity, which comprised at 31 March 2013: (i) 4,350MW of gas and oil fired capacity (GB); (ii) 1,068MW of gas and oil fired capacity (Ireland); (iii) 4,370MW of coal fired capacity (with biomass co-firing capacity); (iii) 3,240MW of renewable capacity (including hydro, pumped storage, on shore and offshore wind and dedicated biomass).

With this portfolio, SSE has the greatest fuel diversity for generating electricity among UK generators and amongst the most flexible. It also makes SSE the largest generator of electricity among UK generators. It also makes SSE the largest generator of electricity from renewable sources across the UK and Ireland. As well as diversity of fuel type, SSE now has greater diversity of generation plan in the markets in which it operates, following the acquisition of Endesa Ireland Limited in October 2012. This provided SSE with 1,068MW of gas and oil fired plant in Ireland's Single Electricity market to add to the 500MW of wind it already owned at that stage ("Endesa Acquisition"). The Endesa Acquisition involved a total cash consideration of €350 million (£282 million) plus an



estimated €53 million (£42 million) for working capital. SSE is now the third largest electricity generation capacity owner on the island of Ireland with around 13 per cent. of installed capacity.

### ***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 8.7TWh in 2012/13, compared with 21.6TWh during the same period in 2011/12. During 2012/13 SSE's principal wholly owned and operating gas fired power station, Peterhead, achieved 95 per cent. of its maximum availability to generate electricity, excluding planned outages, the same availability as in the previous year. In addition to its wholly owned gas generation, SSE has joint venture interests in: (i) Marchwood, the 840MW CCGT owned by Marchwood Power Ltd, a 50:50 joint venture between SSE and ESBII Limited. During 2012/13, the plant achieved 94 per cent. of its maximum availability to operate during the year, the same as in the previous year; and (ii) Seabank, the 1,140MW CCGT, owned by Seabank Power Limited, a 50:50 joint venture between SSE and Electricity First Limited. During 2012/13, the plant achieved 94 per cent. of its maximum availability to operate during the year, compared with 86 per cent. the previous year. All of the electricity output at both plants is sold under contract to SSE.

The Endesa Acquisition included a 460MW CCGT currently under construction at Great Island, County Wexford. SSE will incur capital expenditure of around €140 million (£110 million) over the three financial years to complete the construction of the new CCGT. This is included in its plans to incur capital and investment expenditure in the range of £1.5 billion to £1.7 billion in each of the years to March 2015.

In the light of challenging market conditions for gas-fired generation, SSE undertook a comprehensive £100 million programme of upgrade works at its Keadby (735MW) and Medway (735MW) gas-fired power stations, which meant that they did not generate any output at all during 2012/13, except for short test firing operations. The works included upgrades to gas turbines, steam turbines, boilers and process control systems designed to increase the flexibility and efficiency of the plants. The upgrade programmes proceeded successfully and are now complete. Medway was successfully re-commissioned in early May, but SSE has decided not to bring Keadby back into service and instead the plant has been deep moth-balled.

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 off shore wind farms; (iii) short construction time; (iv) high thermal efficiency; and (v) its status as the cleanest of the fossil fuel technologies. With its increasing importance, SSE continues to develop a range of CCGT options in GB for the medium and long term. Although projects such as Abernedd are close to being 'shovel ready' and others such as Keadby 2 are at an advanced stage of development, unless there is a significant change in the UK government policy around Electricity Market Reform and the timing and operation of a future capacity mechanism, and clear market signals suggesting the need for increased gas-fired generation capacity, SSE does not expect to take any final investment decisions to construct these projects until at least 2015. This will mean no new capacity will come into operation until 2017/18 at the earliest.

#### ***Coal***

During the financial year ended 31 March 2013, SSE's 4,370MW of coal fired power stations, located at Fiddler's Ferry, Ferrybridge and Uskmouth, generated 20.6TWh of electricity, compared with 16.8TWh during the previous year. The stations achieved 90 per cent. of their maximum availability to generate electricity, excluding planned outages, compared with 89 per cent. in the previous year.

This increase in output took place against a background of significantly lower gas generation and lower hydro output relative to the same period last year. This demonstrates the considerable value of SSE's coal fired stations as part of a diverse portfolio.

All of the capacity at Fiddler's Ferry and Uskmouth and half of the capacity at Ferrybridge (over 3,300MW in total) is able to comply with the Large Combustion Plant Directive ("LCPD"). All this plant has also been opted-in to the Transitional National Plan under the Industrial Emissions Directive ("IED") which provides a number of alternative options for how they will operate through to at least the end of June 2020. SSE has not made a decision on how the plant will operate and this will depend on market conditions and the effects of any future capacity mechanism.

Over recent years SSE has also been assessing the potential investment options for its coal fired generation plants, in order to develop the full potential value from its portfolio. In the next few months, SSE will conclude a significant trial investment on one 485MW unit at its Fiddlers Ferry site, which, if successful, will reduce the emissions of NOx (nitrogen dioxide) and provide the option of increased generation under the IED Transitional National Plan. Further investment in similar technologies could be extended to SSE's other three units at the plant, as well as the two remaining units at Ferrybridge. At a low capital cost, this investment may provide SSE with significant optionality to operate this coal fired plant up to and beyond 2020 and support SSE's commitment to a diverse, flexible and cost effective portfolio.

### ***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.

In April 2012, SSE and Wheelabrator Technologies Ltd entered into a 50:50 joint venture to develop a new £300 million multi-fuel generation facility at SSE's Ferrybridge site. The joint venture (Multifuel Energy Ltd) has begun construction of the plant 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 CO<sub>2</sub> emissions. Consequently, the development of viable carbon capture technology is central to the UK's climate change and energy security objectives. SSE is involved in two important CCS projects: (i) Ferrybridge (coal) - this project is the UK's largest operating carbon capture project and is the first of its size to be integrated into a working power plant in the UK. The project, which became operational in March 2012, has captured, on average, at the rate between 90 and 100 tonnes of CO<sub>2</sub> per day over the last year from the equivalent of 5MW of coal fired power generating capacity; (ii) Peterhead (gas) - SSE is working with Shell UK to develop a gas CCS project at SSE's gas fired power station in Peterhead. In March 2013, the DECC confirmed that the Peterhead project was one of two CCS projects in the UK that would progress to the next stage of the UK Government's CCS Commercialisation Competition. Shell is leading the development of the project, and will take responsibility for the construction of the CO<sub>2</sub> capture plant and thereafter the operation, transport and storage elements of the project. SSE will be a strategic partner, investing in the necessary infrastructure at Peterhead power station and providing the flue gas from which the CO<sub>2</sub> will be extracted. This arrangement enables both parties to focus on their respective areas of expertise.

### ***Changing SSE's thermal operations***

In advance of its new financial year on 1 April 2013, SSE completed a review of its existing thermal generation assets as well as its biomass plant at Slough.

The primary focus of this review was to ensure that all generation assets continued to contribute to the company's performance by safely delivering the required levels of availability, efficiency, cost effectiveness and, ultimately, sustainable commercial viability.

The review concluded that the convergence of challenging market conditions and prolonged public policy uncertainty meant SSE could no longer absorb the impact of them without a significant adjustment to its generation portfolio.

As a result, SSE announced on 21 March 2013 that it had decided to change the operating regime of a number of generation plants, the net affect of which will be the reduction of around 2,000MW of thermal generation capacity in Great Britain over the next year. The key changes to SSE's thermal assets are:

- (i) Ferrybridge, Yorkshire (coal-fired): Two 490MW generation units are opted out of the Large Combustion Plant Directive ("LCPD") and are therefore required to close once they have used up their allowed 20,000 operating hours, or by the end of 2015 at the latest. These units are both currently expected to reach their 20,000 allowed operating hours limit by end of 2013/14 financial year. SSE has therefore notified National Grid that it will be releasing around 1,000MW of electricity Transmission Entry Capacity ("TEC") at this site from 31 March 2014;
- (ii) Keadby, Lincolnshire (gas-fired): Continuing poor market conditions for gas generation, combined with ongoing uncertainty about the timing and future operation of a capacity mechanism for existing gas-fired generation plant, meant that there was no economic reason to bring Keadby back into operation after its extended upgrade. Keadby will therefore be 'deep mothballed' – effectively meaning the plant at the power station will require up to one year to re-commission. This decision meant the immediate withdrawal of all 735MW of capacity at Keadby. SSE will continually monitor market conditions but it expects Keadby to remain in this state for at least the next two years. Nevertheless, if and when it is required to generate electricity in the future, Keadby will be able to operate in a more flexible and efficient way as a result of the investment made during 2012/13. SSE would also expect to bring this capacity back into operation before commissioning any new investment in gas-fired capacity;
- (iii) Uskmouth, Gwent (coal-fired): Uskmouth was forecast to be loss making in 2013/14. However, improvements in market conditions and the productivity of the station suggested that it would be able to operate profitably in the coming year, if changes were made to the operation of the station and steps were taken to reduce ongoing maintenance costs. One of the three units (120MW) therefore ceased generation and closed on 1 April 2013 and by doing so avoided the cost of a major statutory outage that was otherwise planned for 2013/14. Following this change Uskmouth has a generation capacity of 240MW through its two remaining units. Given the ongoing financial challenges at Uskmouth, SSE has also notified National Grid that it will release all 345MW of the TEC for the Uskmouth site from 31 March 2014. This will mean that if market conditions suggest the station is able to operate profitably after this date, SSE will need to purchase the required level of TEC in the open market. A decision on how SSE will operate Uskmouth beyond March 2014 will be taken in early 2014;
- (iv) Peterhead, Aberdeenshire (gas-fired): Peterhead technically has an installed capacity of 1,840MW. However, because of the impact of high transmission access charges in the north of Scotland, SSE took the decision in March 2010 to release TEC at Peterhead, effectively constraining the available generation capacity of the site to 1,180MW. Transmission access charges continue to be excessively expensive in the north of Scotland and, given the challenging market conditions for gas-fired generation, SSE has decided to reduce Peterhead's TEC to 400MW from 31 March 2014.

### ***Gas Production***

SSE's 2011 acquisition of Hess Limited of North Sea natural gas and infrastructure assets was a measured entry in to non-operated upstream assets. In December 2012, it increased its equity interest in three assets (Apollo, Minerva and Mercury) to 50 per cent. for a total cash consideration of £25.5 million. On 12 April 2013, SSE completed the acquisition of 50 per cent. of the Sean gas field from BP, for a total cash consideration of £117.4 million. Following completion of the Sean acquisition, SSE has a gas production business that is a top 10 gas producer in the UK, and is in the top 20 for oil and gas production combined. SSE's portfolio is deliberately 100 per cent. gas weighted, since SSE's primary reason for owning gas assets is to secure a long term supply of physical gas at a 'fixed' price, to enable it to effectively meet the energy needs of its customers.

### ***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 up to 313 million cubic metres (mcm) of gas storage capacity to its customers during the financial year to 31 March 2013. It accounts for around 6 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 (66.6 per cent. share) has developed with Statoil (UK) Ltd. It will ultimately have the capacity to store up to 320mcm, and account for up to 20 per cent. of the UK's storage deliverability.

### ***Renewable Generation***

Following a very successful period constructing and commissioning renewable energy projects, SSE had 2,777MW of renewable energy capacity in operation in GB (as well as 463MW in Ireland) by the end of the 2012/13 financial year, including its share of joint ventures. This comprised (net): (i) 1,150MW of conventional hydro; (ii) 898MW of onshore wind; (iii) 349MW of offshore wind; (iv) 80MW dedicated biomass; and (v) 300MW pumped storage.

Output from over 1,700MW of SSE's renewable portfolio 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 (excluding pumped storage) was 5,950GWh in 2012/13, confirming SSE's position as the UK's leading generator of electricity from renewable sources. Total electricity output from renewable generation in Ireland was 1,335GWh 2012/13.

SSE 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. In addition to its own developed sites, SSE will also consider opportunities to acquire projects. With Great Britain and Ireland identified as its core markets, SSE has a broad portfolio of development options in both jurisdictions and 1GW of electricity interconnection between the two markets.

### ***Hydro Electric Schemes***

SSE owns and operates 1,150MW of conventional hydro electric capacity across 57 hydro electric power stations in the north of Scotland. A further 300MW comes from its pumped storage facility at Foyers, on Loch Ness. During 2012/13 total output from all SSE's conventional hydro-electric schemes was 2,836GWh.

Generation at the 100MW Glendoe hydro electric scheme near Loch Ness, re-started in August 2012, and it produced 100GWh of electricity in the period to 31 March 2013. Restoration of generation took place after the completion of the work undertaken at Glendoe following its interruption in August 2009 as a result of a rock fall in the tunnel carrying water from the scheme reservoir to the power station. SSE is continuing to pursue its legal and insurance options.

SSE has continued with its pre-construction work at this 7.5MW Glasa (formerly know as Kildermorie) hydro electric project near Adross in Ross-shire. In May 2013, SSE announced that it would begin full construction work on the project in the summer of 2013.

In October 2012, Highland Council confirmed it had no objection to the development of SSE's proposed Coire Glas (Loch Lochy) 600MW pumped storage scheme, and the planning consent will now be determined by the Scottish Ministers. SSE has concluded that Coire Glas is therefore its preferred option for a pumped storage development in the near future. A decision on whether to construct Coire Glas is unlikely to be taken before 2015 at the earliest.

## **Onshore Wind Farms**

At 31 March 2013, SSE owned 898MW of onshore wind farm capacity in GB as well as 463MW in Ireland. Output from these assets in GB during the previous 12 months was 1,880GWh compared to 1,225GWh 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.

To optimise its portfolio of onshore wind assets, both in operation and development, SSE continues to have a programme of selective acquisitions and disposals. At the end of March 2013, SSE completed the sale of four wind farms with a total generation capacity of 79.5MW, to a new fund managed by Greencoat Capital, for a total cash consideration of £140 million. SSE also invested £10 million in the new fund. As part of the deal, SSE entered into power purchase agreements ("PPA") for three of the wind farms totalling 43.5MW (the fourth wind farm already had a PPA with a third party) and will continue to have the operation and maintenance contract for all four wind farms.

The following projects are currently in construction or pre-construction and are key components of SSE's portfolio of strategic onshore wind projects in Great Britain: (i) Calliachar (32MW) – the first turbines have been erected at the site and generated their first energy during March 2013, meaning the site is eligible to receive support through the Renewable Obligation under the existing full ROC, 20 year scheme. The project is expected to be completed during the summer of 2013; (ii) Keadby (68MW) – adjacent to SSE's Keadby gas-fired power station, construction is well under way, with the first turbines expected to be erected and generating energy by the end of the summer 2013. As a result of a delayed grid connection, the project is still able to qualify for full ROC support if, as expected, it successfully generates its first energy by September 2013. The project is scheduled for completion in 2014; and (iii) Strathy North (75MW) – located in Sutherland, this project will be a significant new development for SSE during 2013/14. Pre-construction works have begun at the site and full construction is anticipated to begin in mid-2013.

SSE had around 300MW of fully consented projects across Great Britain at 31 March 2013. A major proportion of this is SSE's share in the 101 turbine Viking wind farm on Shetland, which is a joint venture with Viking Energy Partnership. Although this project is consented, this determination is currently subject to a Judicial Review. The project also faces the same issues as many 'island' wind farms, of high transmission entry costs and extended grid connection dates. No investment decision has therefore been taken on Viking and it is currently unlikely to be fully commissioned before the end of the decade. In addition, SSE acquired the 99MW consented Dumnaglass scheme in May 2013.

SSE in Great Britain has over 600MW of development projects currently in planning, and expects to receive decisions on around 400MW of these during 2013/14. In Great Britain, a further 300MW of new onshore wind farm projects are currently in pre-planning.

At 31 March 2013, SSE's onshore wind farm development portfolio in Ireland comprised around: (i) 80MW in construction or pre-construction; and (ii) 130 MW with consent for development. Projects under construction in Ireland are Athea (34MW) in County Limerick, and Glenconway (46MW), part of SSE's Slieve Kirk strategic area located in County Derry. Construction at both projects is progressing well. The first energy was exported from Glenconway in March 2013, qualifying it for the full Northern Ireland ROC support mechanism. Athea is on target to generate its first energy in September which would qualify it for the ReFiT support mechanism in the Republic of Ireland.

SSE has around 100MW of other development projects currently in planning across Ireland.

## **Offshore Wind Farms**

At 31 March 2013, SSE's total net capacity for generating electricity at offshore wind farms was 349MW. SSE's share of total electricity output from all turbines during the financial year ended 31 March 2013 was 1,066GWh.

Due to the significant larger scale and cost of both consenting and constructing offshore wind farms compared to onshore, SSE believes the inherent risks are best managed through partnership arrangements. On this basis SSE has ownership interests in the following operating offshore wind farms: (i) Greater Gabbard (504MW), through the partnership Greater Gabbard offshore Winds Limited (“GGOWL”), in which SSE and RWE Npower Renewables Limited each have a 50 per cent. stake; (ii) Walney (367MW), through the partnership Walney (UK) Offshore Windfarms Ltd, in which SSE has a 25.1 per cent. stake.

All of the 140 turbines at Greater Gabbard are now fully commissioned, and SSE is responsible for the day-to-day operation of the completed wind farm. GGOWL have reached agreement on all of the outstanding claims relating to the Greater Gabbard offshore wind farm which brought an end to the contractual dispute between GGOWL and Fluor Ltd. The main claim brought by GGOWL against Fluor Ltd related to the quality of up to 52 upper foundations (transition pieces) supporting turbines and the quality of up to 35 lower foundations supporting the same turbines which are the contractual responsibility of Fluor Ltd. GGOWL is now confident about the long-term structural integrity of the disputed foundations.

The next offshore wind farm in SSE’s development pipeline is the Galloper project, which is located close to the existing Greater Gabbard development and has a potential capacity of up to 504MW. This project is also a 50:50 partnership with RWE Npower Renewables Limited. Significant progress has been made in the planning phases of this project. The project received planning consent from the Secretary of State for Energy and Climate Change in May 2013. SSE expects to make a final investment decision on the project in the first half of 2014 with the aim of progressing with a development programme that would enable Galloper to retain the option to benefit from the existing ROC regime for offshore wind.

Beyond this, the planning proposal for the 1,000MW Beatrice project located in the Moray Firth, a 75:25 partnership with Repsol Nuevas Energias UK, is currently with Marine Scotland with a planning decision expected in late in 2013. The onshore grid connection for this project received consent from Moray Council in February 2013.

SSE is also involved in two consortia that provide SSE with valuable development rights for potentially up to 4.2GW (net) additional offshore wind farm assets beyond 2020: (i) SeaGreen, a 50:50 partnership between SSE Renewables and Fluor Limited, which has recently sought consent for two wind farm areas, with a capacity of 525MW each, which represent the first of three phases in this 3.5GW Firth of Forth offshore wind farm; and (ii) Forewind, a four-way partnership with RWE Npower Renewables Limited, Statoil and Statkraft, which plans to submit consent applications for two wind farm areas, each with a capacity of 1.2GW, which represent the first phase of development of the 9GW Dogger Bank wind farm.

Decisions by SSE regarding the extent of the build out of this pipeline will reflect its disciplined approach, consistent with its financial principles and focus on taking forward only the best investments and achieving the strongest possible returns to support dividend growth.

## **Biomass**

During 2012/13, SSE’s 80MW biomass plant at Slough produced 168GWh of electricity, compared to 156GWh during the previous year. Slough was loss making in the financial year to 31 March 2013 and faces a similar challenging position in financial year to 31 March 2014 particularly following the removal of the free allocation of carbon credits.

SSE has concluded that the current economic and policy investment framework will not support the further development of new biomass based operations at its coal fired power stations. SSE continues to maintain options for new dedicated biomass capacity through its joint venture with Forth Ports, Forth Energy, which is seeking to develop up to 300MW of electrical output and 260MW of heat output from biomass capacity at three sites in Scotland.

## 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 2013 was 8.4 years, compared with 9.3 years at 31 March 2011 and 10.6 years at 31 March 2010.

SSE's debt structure remains strong, with around £5.46 billion of medium-to-long-term borrowings as at 31 March 2013 in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Around 1.5 billion of medium-to-long-term borrowings will mature in the year to 31 March 2014. The balance of SSE's adjusted net debt is financed with short-term bank debt. The facilities, external debt and internal loan stocks for the SSE Group as at 31 July 2013 (with sterling equivalents (where applicable) as at that date) are as follows:

SSE	<ul style="list-style-type: none"><li>• \$700 million (£446.6 million) U.S. private placement due between 2017 and 2024</li><li>• £700 million 5.75 per cent. bonds due February 2014</li><li>• \$100 million floating rate notes due 2015 (£61.5 million of principal outstanding)</li><li>• £500 million 5 per cent. bonds due 2018</li><li>• ¥15 billion (£126.6 million) 3.52 per cent. fixed rate notes due 2018</li><li>• £300 million 4.25 per cent. bonds due 2021</li><li>• £300 million 5.875 per cent. bonds due 2022</li><li>• £500 million 8.375 per cent. bonds due 2028</li><li>• £350 million 6.25 per cent. bonds due 2038</li><li>• €600 million 2.00 per cent. bonds due June 2020 (£513.9 million of principal outstanding)</li><li>• ¥28 billion (£208.7 million) Samurai loan maturing September 2013</li><li>• £1.3 billion revolving credit facility maturing 2018 (undrawn)</li><li>• £200 million revolving credit facility maturing 2018 (undrawn)</li><li>• £267.7 million non-recourse funding relating to street lighting projects</li><li>• £500 million undrawn facility with an availability period until 31 October 2013, maturing September 2014</li><li>• £100 million European Investment Bank loan due 2020</li><li>• £300 million European Investment Bank loan due 2021</li></ul>
SSE Generation Limited	<ul style="list-style-type: none"><li>• £50 million European Investment Bank loans</li><li>• £1.050 billion intercompany loan stock due to SSE</li></ul>
SSE Renewables Holdings Limited	<ul style="list-style-type: none"><li>• £3.8 million external bank debt</li></ul>
SHEPD	<ul style="list-style-type: none"><li>• £25 million European Investment Bank loans</li><li>• £124.1 million 1.429 per cent. index linked bonds due 2056</li><li>• £300 million intercompany loan stock due to SSE</li></ul>
SEPD	<ul style="list-style-type: none"><li>• £1.4 million European Investment Bank loans</li><li>• £350 million 5.5 per cent. bonds due 2032</li><li>• £325 million 4.625 per cent. bonds due 2037</li><li>• £113.7 million 4.454 per cent. index linked loan maturing 2044</li><li>• £400 million intercompany loan stock due to SSE</li></ul>

SHE Transmission	<ul style="list-style-type: none"> <li>• £313.1 million intercompany loan stock due to SSE</li> <li>• £150 million undrawn European Investment Bank facility with an availability period until September 2013, maturing 2021</li> </ul>
SSE Energy Supply Limited	<ul style="list-style-type: none"> <li>• £250 million intercompany loan stock due to SSE</li> </ul>
SSE Services plc	<ul style="list-style-type: none"> <li>• £30 million intercompany loan stock due to SSE</li> </ul>
SSE Hornsea Limited	<ul style="list-style-type: none"> <li>• £300 million intercompany loan stock due to SSE</li> </ul>
SSE E&P UK Limited	<ul style="list-style-type: none"> <li>• £180 million intercompany loan stock due to SSE</li> </ul>
Keadby Generation Limited	<ul style="list-style-type: none"> <li>• £600 million intercompany loan stock due to SSE</li> </ul>

### 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 2013 (with sterling equivalents (where applicable) as at that date) are as follows:

SSE	<ul style="list-style-type: none"> <li>• £750 million Capital Hybrid Security – perpetual with first call date 1 October 2015</li> <li>• €500 million (£411 million) Capital Hybrid Security – perpetual with first call date 1 October 2015</li> <li>• €750 million (£602.3 million) Capital Hybrid Security – perpetual with first call date 1 October 2017</li> <li>• \$700 million (£431.1 million) Capital Hybrid Security – perpetual with first call date 1 October 2017</li> </ul>
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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 expects its investment and capital expenditure will be in the range of £1.5 billion to £1.7 billion in each of the five years to March 2015. In the financial year ended 31 March 2013, its capital and investment expenditure totalled £1,485.5 million compared with £1,706.9 million in the previous year.

There are four main categories in SSE’s investment and capital expenditure plans to March 2015:

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



- expenditure that is already committed to development of new assets such as the CCGT at Great Island, the ‘multi-fuel’ plant at Ferrybridge and new wind farms; and
- expenditure that is not yet committed but which could be incurred to support the development of new assets.

Decisions on whether to proceed with individual projects are made following rigorous analysis and:

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

The uncommitted nature of some expenditure gives SSE flexibility in the management of its balance sheet. The extent of SSE’s project pipeline means that SSE has a wide range of investment options from which to select those most likely to deliver the best returns. It continues to believe that a disciplined programme with the principles, shape and scale described above should allow it to maintain the development of a balanced and diverse range of assets to support annual dividend increases that are above RPI inflation while remaining consistent with the criteria, including the key ratios, associated with a single A credit rating without the need to issue new shares.

## **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.

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

The environmental impact of the operation of large generating stations in the UK is regulated by the Environment Agency in England and Wales (“**EA**”) and the Scottish Environmental Protection Agency in Scotland (“**SEPA**”). EA and SEPA were both established under the Environment Act 1995. The operation of SSE’s generating plant in

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

### ***Electricity and Gas Supply***

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

OFGEM is currently undertaking a 'Retail Market Review' of the supply of electricity and gas to households and small businesses. On 27 March 2013, OFGEM published its final package of proposals, which has now closed for consultation. OFGEM's proposed reforms include: banning multi tier tariffs; capping the number of tariffs that may be offered by suppliers to four core tariffs; a requirement to tell customers the cheapest tariff for them; and new enforceable standards of conduct designed to introduce enhanced fairness for customers. OFGEM is expected to issue a statutory licence consultation on their final proposals shortly.

OFGEM has also been investigating four energy suppliers, including SSE, to establish whether such suppliers are complying with their obligations to prevent mis-selling of energy contracts. SSE's sales investigation concluded on 3 April 2013, with SSE being found liable to pay a £10.5 million financial penalty in respect of a number of breaches of its supply licence. OFGEM confirmed that the breaches identified had been remedied by SSE during the period of investigation and that OFGEM are now satisfied that there is no issue of ongoing breach. Since the sales investigation was first launched by OFGEM, SSE has significantly strengthened its approach to compliance.

### ***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 will publish their Business Plans for RIIO-ED1 period on 1 July 2013. This will then be subject to extensive consultation before Final Proposals are agreed with OFGEM.

### ***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.

HM Revenue & Customs has powers to obtain information relating to securities in certain circumstances. This may include details of the 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 exchanged with tax authorities in other countries.

## **2 Other Rules Relating to United Kingdom Withholding Tax**

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element 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.

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

The attention of Noteholders is drawn to Condition 9 of the Terms and Conditions of the Notes.

## **4 Proposed Financial Transaction Tax ("FTT")**

The European Commission has published a 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 proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals 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 in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## 5 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 laws in its jurisdiction, 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 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 January 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 (a) 1 January 2014, and (b) if later, in the case of an obligation that pays only foreign passthru payments, 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.

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 Depositary or Common Safekeeper, given that each of the entities in the payment chain beginning with the Issuer and ending with 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 2 August 2013 (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 2 August 2013 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU) (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 2 August 2013. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (and amendments thereto, including Directive 2010/73/EU) (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated 2 August 2013 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. 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]/<br>[Scottish Hydro Electric Power Distribution plc]/<br>[Scottish Hydro Electric Transmission plc]/<br>[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:]                    | [●]  |

- 5 Issue Price: [●] per cent, of the Aggregate Nominal Amount [plus accrued interest from [●]]
- 6 (i) Specified Denominations: [●]  
(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: Subject to any purchase or cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [●] per cent. of their nominal amount
- 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 (i) Status of the Notes: Senior  
(ii) [[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) Margin (s): [+/-][•] per cent, per annum
- (xii) Minimum Rate of Interest: [•] per cent, per annum
- (xiii) Maximum Rate of Interest: [•] per cent, per annum
- (xiv) 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) Reference Price: [•]
- (iii) Day Count Fraction in relation to Early Redemption Amount: [Actual/Actual] [Actual/Actual (ISDA)]  
[Actual/365 (Fixed)]  
[Actual/360]  
[30/360/360/360/Bond Basis]  
[30E/360/Eurobond Basis]  
[30E/360 (ISDA)]

		[Actual/Actual (ICMA)]
17	RPI Linked Note Provisions:	[Applicable/Not Applicable]
	(i) Rate of Interest:	[•]/[Not Applicable]
	(ii) Base Index Figure:	[•]/[Not Applicable]
	(iii) Reference Gilt:	[•]/[Not Applicable]
	(iv) Index Figure applicable:	[3 months lag/8 months lag]
	(v) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]/[Not Applicable]
	(vi) Interest Determination Date(s):	[•]
	(vii) Provisions for determining Coupon where calculation by reference to Index is impossible or impracticable or otherwise disrupted:	As specified in Condition 7
	(viii) Interest Period(s):	[•]
	(ix) Specified Interest Payment Dates:	[•]
	(x) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(xi) Business Centre (s):	[•]
	(xii) Minimum Rate of Interest:	[•] per cent. per annum
	(xiii) Maximum Rate of Interest:	[•] per cent. per annum
	(xiv) 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
- 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 [●]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 25 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]
- 26 New Global Note: [Yes] [No]
- 27 Financial Centre(s): [Not Applicable/[●]]
- 28 Talons for future Coupons to be attached to Definitive Notes: [Yes/No]
- 29 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 [REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES]

- (i) [Reasons for the offer [•]  
(See ["Use of Proceeds"] wording in Prospectus — reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- (ii) [Estimated net proceeds:] [•]  
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)
- (iii) [Estimated total expenses:] [•]  
([If the Notes are derivative securities for which Annex XII of the Prospectus Directive Regulation applies it is] only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

### 5 [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.]

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

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

7 **OPERATIONAL INFORMATION**

ISIN Code:

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):

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 7 August 2013. 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 23 July 2013 and of a duly appointed committee of the Board of Directors of SSE passed on 23 July 2013, (b) resolutions of the Board of Directors of SHEPD passed on 23 July 2013, (c) resolutions of the Board of Directors of SHE Transmission passed on 23 July 2013 and (d) resolutions of the Board of Directors of SEPD passed on 25 June 2012, respectively.
- (3) There has been no significant change in the financial or trading position of (a) SSE or the SSE Group since 31 March 2013 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2012.
- (4) There has been no material adverse change in the prospects of (a) SSE or the SSE Group since 31 March 2013 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2012.
- (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 2012 and 31 March 2013, respectively, and the audited financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2011 and 31 March 2012, 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](http://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 2012 and 31 March 2013, respectively and (ii) the financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2011 and 31 March 2012, 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  
44<sup>th</sup> 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 TSB 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*

**Dundas & Wilson CS 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