

PROSPECTUS DATED 14 MARCH 2013



## NGG Finance plc

*(incorporated with limited liability in England and Wales on 21 May 2001 under registered number 4220381)*

**€1,250,000,000 Fixed Rate Resetable Capital Securities due 2076**

**£1,000,000,000 Fixed Rate Resetable Capital Securities due 2073**

**unconditionally and irrevocably guaranteed by**

## National Grid plc

*(incorporated with limited liability in England and Wales on 11 July 2000 under registered number 4031152)*

---

<b>Issue Price:</b>	<b>99.973 per cent. in respect of the Euro Securities</b>
	<b>99.954 per cent. in respect of the Sterling Securities</b>

---

The €1,250,000,000 Fixed Rate Resetable Capital Securities due 2076 (the "**Euro Securities**") and the £1,000,000,000 Fixed Rate Resetable Capital Securities due 2073 (the "**Sterling Securities**") and together with the Euro Securities, the "**Securities**" and each, a "**Tranche**") will be issued on 18 March 2013 (the "**Issue Date**") by NGG Finance plc (the "**Issuer**") and unconditionally and irrevocably guaranteed on a subordinated basis as described herein by National Grid plc (the "**Guarantee**" and the "**Guarantor**", respectively). The Euro Securities will bear interest from (and including) the Issue Date to (but excluding) 18 June 2020 (the "**Euro Securities First Reset Date**") at a rate of 4.250 per cent. per annum, payable, subject as described herein, annually in arrear on 18 June in each year. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to €53.21 per €1,000 in principal amount of the Euro Securities. The Sterling Securities will bear interest from (and including) the Issue Date to (but excluding) 18 June 2025 (the "**Sterling Securities First Reset Date**") at a rate of 5.625 per cent. per annum, payable, subject as described herein, annually in arrear on 18 June in each year. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to £70.43 per £1,000 in principal amount of the Sterling Securities. From the Euro Securities First Reset Date, the Euro Securities will, in respect of successive periods of 7 years (each such period of 7 years, a "**Reset Period**") up to and including the period from 18 June 2069 to their Maturity Date (as defined herein) bear interest at a rate per annum which shall be the aggregate of the Euro Securities Margin (as specified below) and the relevant 7 year Swap Rate (as defined in the Terms and Conditions of the Euro Securities (the "**Euro Conditions**")) for the relevant Reset Period and payable annually in arrear on 18 June in each year, all as more particularly described in "Terms and Conditions of the Euro Securities — Interest Payments". From the Sterling Securities First Reset Date, the Sterling Securities will, in respect of successive periods of 12 years (each such period of 12 years a "**Reset Period**") up to and including the period from 18 June 2061 to their Maturity Date bear interest at a rate per annum which shall be the aggregate of the Sterling Securities Margin (as specified below) and the relevant 12 year Swap Rate (as defined in the Terms and Conditions of the Sterling Securities (the "**Sterling Conditions**" and, together with the Euro Conditions, the "**Conditions**")) for the relevant Reset Period and payable annually in arrear on 18 June in each year, all as more particularly described in "Terms and Conditions of the Sterling Securities — Interest Payments". In respect of the Euro Securities, the "**Euro Securities Margin**" shall equal (i) 2.88 per cent. per annum from the Euro Securities First Reset Date to (but excluding) the 2023 Step-up Date (as defined in the relevant Conditions), (ii) 3.13 per cent. per annum from the 2023 Step-up Date to (but excluding) the 2040 Step-up Date and (iii) 3.88 per cent. per annum from the 2040 Step-up Date and, in respect of the Sterling Securities, the "**Sterling Securities Margin**" shall equal (i) 3.48 per cent. per annum from the 2025 Step-up Date to (but excluding) the 2045 Step-up Date and (ii) 4.23 per cent. per annum from the 2045 Step-up Date.

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on either or both Tranches as more particularly described in "Terms and Conditions of the Euro Securities — Optional Interest Deferral" and "Terms and Conditions of the Sterling Securities — Optional Interest Deferral". Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute Deferred Interest (as defined in the relevant Conditions). In relation to the relevant Tranche, the Issuer may pay outstanding Deferred Interest, in whole or in part, at any time in accordance with the relevant Conditions. Notwithstanding this, in relation to each Tranche, the Issuer shall pay any outstanding Deferred Interest, in whole but not in part, on the first to occur of the following dates: (i) the date on which the Tranche is redeemed or repaid in accordance with the relevant Conditions; and (ii) the date on which the Tranche is substituted for, or where the terms of such Tranche are varied so that the Securities of such Tranche become, Qualifying Securities (as defined in the relevant Condition 8 thereof) in accordance with the relevant Condition 8 thereof, all as more particularly described in "Terms and Conditions of the Euro Securities — Optional Interest Deferral — Deferred Interest" and "Terms and Conditions of the Sterling Securities — Optional Interest Deferral — Deferred Interest", respectively. In relation to the relevant Tranche, so long as Deferred Interest remains outstanding, neither the Issuer nor the Guarantor shall, subject to certain exceptions, declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made by any Subsidiary of the Issuer and/or the Guarantor, as the case may be, on, the ordinary share capital of the Issuer or the Guarantor or any Parity Securities of the Issuer or any Parity Securities of the Guarantor (both as defined in the relevant Conditions) or redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any Subsidiary of the Issuer and/or the Guarantor of, any ordinary shares of the Issuer, any ordinary shares of the Guarantor, any Parity Securities of the Issuer or any Parity Securities of the Guarantor, until, in any such case, the date on which payment is made in full of all outstanding Deferred Interest, all as more particularly described in "Terms and Conditions of the Euro Securities — Optional Interest Deferral — Payment Restrictions for the Issuer and the Guarantor" and "Terms and Conditions of the Sterling Securities — Optional Interest Deferral — Payment Restrictions for the Issuer and the Guarantor".

Unless previously redeemed or purchased and cancelled, the Euro Securities will be redeemed on 18 June 2076 and the Sterling Securities will be redeemed on 18 June 2073. Each Tranche is also redeemable (at the option of the Issuer) in whole but not in part on any Optional Redemption Date (as defined in the relevant Conditions), at the relevant principal amount together with any accrued and unpaid interest up to (but excluding) the

redemption date (including any outstanding Deferred Interest). In addition, upon the occurrence of a Rating Capital Event, a Substantial Repurchase Event, a Tax Deductibility Event or a Withholding Tax Event (each such terms as defined in the relevant Conditions), each Tranche shall be redeemable (at the option of the Issuer) in whole but not in part at the prices set out, and as more particularly described, in "Terms and Conditions of the Euro Securities — Redemption" and "Terms and Conditions of the Sterling Securities — Redemption".

The Issuer may, upon the occurrence of a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event, at any time, without the consent of the holders of the relevant Tranche, either (i) substitute all, but not some only, of such Tranche for, or (ii) vary the terms of such Tranche with the effect that the Securities of such Tranche remain or become, as the case may be, Qualifying Securities, in each case in accordance with the relevant Condition 8 thereof and subject to the receipt by the Trustee of the certificate of the directors of the Guarantor referred to in the relevant Condition 9 thereof.

The Securities will be unsecured securities of the Issuer and will constitute subordinated obligations of the Issuer and the Guarantee will constitute unsecured and subordinated obligations of the Guarantor, all as more particularly described in "Terms and Conditions of the Euro Securities — Status of the Securities and the Coupons", "Terms and Conditions of the Euro Securities — Subordination of the Securities and the Coupons", "Terms and Conditions of the Euro Securities — Guarantee", "Terms and Conditions of the Sterling Securities — Status of the Securities and the Coupons", "Terms and Conditions of the Sterling Securities — Subordination of the Securities and the Coupons" and "Terms and Conditions of the Sterling Securities — Guarantee".

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

Applications will be made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for each Tranche 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 Tranche to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this prospectus (the "**Prospectus**") to a Tranche being "**listed**" (and all related references) shall mean that the Tranche has been admitted to the Official List and has 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 Tranche will initially be represented by a temporary global security (each a "**Temporary Global Security**" and, together with the Temporary Global Security in respect of the other Tranche, the "**Temporary Global Securities**"), without interest coupons or talons attached, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about the Issue Date. Each Temporary Global Security will be exchangeable for interests in a permanent global security (the "**Permanent Global Security**" and, together with the Permanent Global Security in respect of the other Tranche, the "**Permanent Global Securities**" and, together with the Temporary Global Securities, the "**Global Securities**"), without interest coupons or talons attached, on or after a date which is expected to be 28 April 2013, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for Definitive Securities (as defined in "Summary of Provisions relating to the Securities while in Global Form" below) in bearer form in the denominations of (i) €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000 in respect of the Euro Securities and (ii) £100,000 and integral multiples of £1,000 in excess thereof up to, and including, £199,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in it. No Definitive Securities will be issued with a denomination above €199,000 in respect of the Euro Securities and above £199,000 in respect of the Sterling Securities. See "Summary of Provisions relating to the Securities while in Global Form".

Each Tranche is expected to be rated BBB- by Fitch Ratings Limited ("**Fitch**"), BBB by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and Baa3 by Moody's Investors Service Ltd. ("**Moody's**" and, together with Fitch and Standard & Poor's, the "**Rating Agencies**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and registered under Regulation (EU) No 1060/2009 (as amended) (the "**CRA Regulation**"). In general, European regulated investors are restricted from using a credit rating for regulatory purposes if such credit rating is not issued by a rating agency established in the European Union and registered under the CRA Regulation.

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

#### JOINT STRUCTURING ADVISERS, GLOBAL CO-ORDINATORS AND JOINT LEAD MANAGERS

**BARCLAYS**

**BOFA MERRILL LYNCH**

#### JOINT LEAD MANAGERS

*In respect of the Euro Securities*

*In respect of the Sterling Securities*

**DEUTSCHE BANK**

**CITIGROUP**

**MORGAN STANLEY**

**CREDIT SUISSE**

**SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

**HSBC**

#### CO-MANAGERS

**BANCO BILBAO VIZCAYA ARGENTARIA, S.A.**

**BANK OF CHINA (HONG KONG) LIMITED**

**COMMONWEALTH BANK OF AUSTRALIA**

**GOLDMAN SACHS INTERNATIONAL**

**ING**

**LLOYDS BANK**

**MITSUBISHI UFJ SECURITIES**

**MIZUHO SECURITIES**

**NATIONAL AUSTRALIA BANK LIMITED**

**THE ROYAL BANK OF SCOTLAND**

**UBS INVESTMENT BANK**

**UNICREDIT BANK**

**WELLS FARGO SECURITIES**

The date of this Prospectus is 14 March 2013

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer, the Guarantor and their respective subsidiaries taken as a whole and the Securities which, according to the particular nature of the Issuer, the Guarantor and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor and the rights attaching to the Securities. The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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

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 offer, issue or sale of the Securities and, if given or made, any such information or representation must not be relied upon as having been authorised by either the Issuer or the Guarantor or either of the Managers (as defined in “Subscription and Sale”).

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Security shall, under any circumstances, create any implication that the information contained in this Prospectus is true subsequent to the date hereof, or that there has been no change (or any event reasonably likely to involve a change) in the affairs of the Issuer or the Guarantor 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 (or any event reasonably likely to involve any adverse change) in the financial position of the Issuer or the Guarantor 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 Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Prospectus and the offering, distribution or sale of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restriction.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) and will be in bearer form and subject to U.S. tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the U.S. Securities Act (“**Regulation S**”). For a description of certain restrictions on offers and sales of Securities 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 Issuer, the Guarantor or the Managers to subscribe for, or purchase, any Securities.

None of the Managers and the Trustee makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus. Neither this Prospectus nor any other financial statement is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Trustee or the Managers that any recipient of this Prospectus or any other financial statements should purchase the Securities. Each potential purchaser of Securities should determine for itself the relevance of the information contained in this Prospectus and its purchase of Securities should be based upon such investigation as it deems necessary. None of the Managers and the Trustee undertakes to review the financial condition or affairs of the Issuer and/or the Guarantor during the life of the Securities or to advise any investor or

potential investor in the Securities of any information coming to the attention of any of the Managers and the Trustee.

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

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact the Securities will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where euro (in the case of the Euro Securities) or sterling (in the case of Sterling Securities) is different from the potential investor's currency;
- (d) understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments and such instruments would generally be purchased by investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities would generally perform under changing conditions, the resulting effects on the value of such Securities and the impact that 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) the Securities are legal investments for it, (2) the Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

Unless otherwise specified or the context requires, references to “£”, “sterling”, “pounds sterling” and “pence” are to the lawful currency of the United Kingdom and references to “euro” and “€” are to the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended.

IN CONNECTION WITH THE ISSUE OF EACH TRANCHE, MERRILL LYNCH INTERNATIONAL (THE “**STABILISING MANAGER**”) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE RELEVANT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE RELEVANT SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO

LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

## TABLE OF CONTENTS

Documents Incorporated by Reference .....	1
Overview .....	2
Risk Factors .....	8
Terms and Conditions of the Euro Securities .....	18
Terms and Conditions of the Sterling Securities .....	39
Summary of Provisions relating to the Securities While in Global Form .....	60
Description of the Issuer .....	64
Description of the Guarantor .....	65
Use of Proceeds .....	81
Taxation .....	82
Subscription and Sale .....	84
General Information .....	87

## **DOCUMENTS INCORPORATED BY REFERENCE**

This Prospectus should be read and construed in conjunction with (i) the audited consolidated annual financial statements of the Guarantor for the financial years ended 31 March 2011 and 31 March 2012, and (ii) the audited consolidated annual financial statements of the Issuer for the financial years ended 31 March 2011 and 31 March 2012, together in each case with the audit report thereon.

Such documents shall be deemed to be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to 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.

The Guarantor will, at its registered office and at the specified office of the Principal Paying Agent, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Prospectus and any document incorporated by reference in this Prospectus. Any request for inspection of such documents should be directed to the specified office of the Principal Paying Agent.

## OVERVIEW

*The following overview refers to certain provisions of the Terms and Conditions of the Euro Securities and the Terms and Conditions of the Sterling Securities and is qualified in its entirety by the remainder of this Prospectus. Capitalised terms used herein have the meaning given to them in “Terms and Conditions of the Euro Securities” or, as the case may be, “Terms and Conditions of the Sterling Securities”.*

<b>Issuer:</b>	NGG Finance plc.
<b>Guarantor:</b>	National Grid plc
<b>Trustee:</b>	The Law Debenture Trust Corporation p.l.c.
<b>Principal Paying Agent:</b>	The Bank of New York Mellon
<b>Issue Size:</b>	€1,250,000,000 of Euro Securities and £1,000,000,000 of Sterling Securities.
<b>Issue Date:</b>	18 March 2013
<b>Maturity Date:</b>	18 June 2076 in respect of the Euro Securities and 18 June 2073 in respect of the Sterling Securities.
<b>Interest:</b>	<p>The Euro Securities will bear interest from (and including) the Issue Date to (but excluding) 18 June 2020 (that is, the Euro Securities First Reset Date) at a rate of 4.250 per cent. per annum, payable, subject as described herein, annually in arrear on 18 June in each year. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to €53.21 per €1,000 in principal amount of the Euro Securities.</p> <p>The Sterling Securities will bear interest from (and including) the Issue Date to (but excluding) 18 June 2025 (that is, the Sterling Securities First Reset Date) at a rate of 5.625 per cent. per annum, payable, subject as described herein, annually in arrear on 18 June in each year. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to £70.43 per £1,000 in principal amount of the Sterling Securities.</p> <p>From the Euro Securities First Reset Date, the Euro Securities will, in respect of each Reset Period up to and including the period from 18 June 2069 to their Maturity Date bear interest at a rate per annum which shall be the aggregate of the Euro Securities Margin (as specified below) and the relevant 7 year Swap Rate for the relevant Reset Period and payable annually in arrear on 18 June in each year.</p> <p>From the Sterling Securities First Reset Date, the Sterling Securities will, in respect of each Reset Period up to and including the period from 18 June 2061 to their Maturity Date bear interest at a rate per annum which shall be the aggregate of the Sterling Securities Margin (as specified below) and the relevant 12 year Swap Rate for the relevant Reset Period</p>



and payable annually in arrear on 18 June in each year.

In respect of the Euro Securities, the "**Euro Securities Margin**" shall equal (i) 2.88 per cent. per annum from the Euro Securities First Reset Date to (but excluding) the 2023 Step-up Date, (ii) 3.13 per cent. per annum from the 2023 Step-up Date to (but excluding) the 2040 Step-up Date and (iii) 3.88 per cent. per annum from the 2040 Step-up Date and, in respect of the Sterling Securities, the "**Sterling Securities Margin**" shall equal (i) 3.48 per cent. per annum from the 2025 Step-up Date to (but excluding) the 2045 Step-up Date and (ii) 4.23 per cent. per annum from the 2045 Step-up Date.

<b>Interest Payment Dates:</b>	Interest in respect of the relevant Securities will be payable, subject as provided herein, annually in arrear on 18 June in each year commencing on 18 June 2014 and ending on the relevant Maturity Date.
<b>Status of the Securities and the Coupons:</b>	The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> and without any preference among themselves and with any Parity Securities of the Issuer.
<b>Subordination of the Securities and the Coupons:</b>	The rights and claims of the Holders and the Couponholders (both as defined in the relevant Conditions) will be subordinated to the claims of holders of all Senior Obligations of the Issuer (as defined in the Conditions) in that if at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a "successor in business" (as defined in the relevant Trust Deed (as defined below)) of the Issuer) or an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders will be subordinated in accordance with Condition 3(a) thereof. Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders under the Guarantee, the claims of holders of all Senior Obligations of the Issuer will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See "Risk Factors – Risks related to the Securities generally – Limited Remedies".
<b>Status of the Guarantee:</b>	The obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor and rank <i>pari passu</i> and without any preference among themselves and with any Parity Securities of the Guarantor.
<b>Subordination of the Guarantee:</b>	The rights and claims of the Holders and the Couponholders under the Guarantee will be subordinated to the claims of holders of all Senior Obligations of the Guarantor (as defined in the Conditions) in that if at any time an order is made, or an effective resolution is passed, for the winding-up of the Guarantor (otherwise than for the purposes of a solvent winding-up or substitution in place of the Guarantor of a "successor in business" (as defined in the relevant Trust Deed) of the Guarantor) or an administrator of the Guarantor is appointed and such

administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders under the Guarantee will be subordinated in accordance with Condition 4(c) thereof. Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders against the Issuer, the claims of holders of all Senior Obligations of the Guarantor will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain from the Guarantor any recovery pursuant to the Guarantee in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

**Optional Interest Deferral:**

In relation to each Tranche, the Issuer may, at its discretion, elect to defer all or part of any Interest Payment (as defined in the relevant Conditions) in relation to such Tranche which is otherwise scheduled to be paid on an Interest Payment Date (except the Maturity Date) by giving prior notice thereof to the relevant Holders. Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute “**Deferred Interest**”. The Issuer may pay outstanding Deferred Interest, in whole or in part, at any time.

In relation to each Tranche, notwithstanding the above, the Issuer shall pay any outstanding Deferred Interest, in whole but not in part, in relation to such Tranche on the first to occur of the following dates:

- (i) the date on which such Tranche is redeemed or repaid in accordance with the relevant Conditions; or
- (ii) the date on which such Tranche is substituted for, or where the terms of such Tranche are varied so that the Securities of such Tranche become, Qualifying Securities in accordance with the relevant Condition 8 thereof,

all as more particularly described in “Terms and Conditions of the Euro Securities — Optional Interest Deferral — Deferred Interest” and “Terms and Conditions of the Sterling Securities — Optional Interest Deferral — Deferred Interest”, respectively.

**Payment Restriction:**

In relation to the relevant Tranche, so long as Deferred Interest remains outstanding, neither the Issuer nor the Guarantor shall, subject to certain exceptions (including but not limited to certain simultaneous *pro rata* payments of deferred interest on any Parity Security of the Issuer and/or any Parity Security of the Guarantor), declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made by any Subsidiary of the Issuer and/or the Guarantor, as the case may be, on, the ordinary share capital of the Issuer or the Guarantor or any Parity Securities of the Issuer or any Parity Securities of the Guarantor or redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any Subsidiary of the Issuer and/or the Guarantor of, any ordinary shares of the Issuer, any ordinary shares of the Guarantor, any Parity Securities of

the Issuer or any Parity Securities of the Guarantor, until, in any such case, the date on which payment is made in full of all outstanding Deferred Interest, all as more particularly described in "Terms and Conditions of the Euro Securities — Optional Interest Deferral — Payment Restriction for the Issuer and the Guarantor" and "Terms and Conditions of the Sterling Securities — Optional Interest Deferral — Payment Restriction for the Issuer and the Guarantor".

**Optional Redemption:**

Each Tranche may be redeemed, at the option of the Issuer and subject to the relevant provisions of Conditions 7 and 9, in whole but not in part on any Optional Redemption Date, at its principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest).

**Special Event Redemption:**

Upon the occurrence of a Rating Capital Event, a Substantial Repurchase Event, a Tax Deductibility Event or a Withholding Tax Event, and subject to the relevant provisions of Conditions 7 and 9 the Issuer shall have the option to redeem, in whole but not in part, the relevant Tranche at (i) 101 per cent. of its principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date, including any accrued but unpaid Deferred Interest (in the case of a Rating Capital Event or a Tax Deductibility Event where any such redemption occurs before the First Reset Date) or (ii) their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date, including any accrued but unpaid Deferred Interest (in the case of a Withholding Tax Event or a Substantial Repurchase Event where any such redemption occurs at any time or, in the case of a Rating Capital Event or a Tax Deductibility Event where any such redemption occurs on or after the First Reset Date).

**Substitution or Variation instead of Special Event Redemption:**

The Issuer may, upon the occurrence of a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event, and subject to the provisions of Conditions 8 and 9, at any time, without the consent of the relevant Holders, either (i) substitute all, but not some only, of the relevant Tranche for, or (ii) vary the terms of the relevant Tranche with the effect that the Securities of such Tranche remain or become, as the case may be, Qualifying Securities.

**Event of Default:**

If a default is made by the Issuer or the Guarantor for a period of 30 days or more in the payment of or in respect of any interest, in each case in respect of any Tranche and which is due, then the Issuer and/or the Guarantor, as the case may be, shall without notice from the Trustee be deemed to be in default in respect of such Tranche and the Trustee at its sole discretion may, or shall, if so requested by an Extraordinary Resolution of the relevant Holders or in writing by the relevant Holders of at least one-quarter in principal amount of such Tranche, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in the winding-up of the Issuer and/or the Guarantor and/or claim in the liquidation of the Issuer and/or the Guarantor for such payment and/or give notice to the Guarantor that such Tranche is, and it shall immediately thereby become, due and repayable at its principal amount together with any accrued and unpaid interest up to (but excluding) such date (including any accrued but

unpaid Deferred Interest).

**Additional Amounts:**

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

**Replacement Intention:**

In relation to each Tranche, the Issuer and the Guarantor intend (without thereby assuming a legal obligation), that if they redeem or repurchase a Tranche, they will so redeem or repurchase the relevant Tranche only to the extent the aggregate principal amount of the Tranche to be redeemed or repurchased does not exceed such part of the net proceeds received by the Issuer, the Guarantor or any Subsidiary of the Guarantor during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer, the Guarantor or such Subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by Standard & Poor's, as the case may be, an aggregate “equity credit” (or such similar nomenclature used by Standard & Poor's from time to time) that is equal to or greater than the “equity credit” assigned to the Tranche to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or the interpretation thereof since the issuance of the relevant Tranche), unless:

- (i) the rating assigned by Standard & Poor's to the Guarantor is at least “A-” (or such similar nomenclature then used by Standard & Poor's) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
- (ii) in the case of a repurchase, such repurchase is of less than (i) 10 per cent. of the aggregate principal amount of the relevant Tranche originally issued in any period of 12 consecutive months or (ii) 25 per cent. of the aggregate principal amount of the relevant Tranche originally issued in any period of 10 consecutive years; or
- (iii) the relevant tranche is redeemed pursuant to a Rating Capital Event (to the extent it is triggered by a change of methodology at Standard & Poor's), a Tax Deductibility Event or a Withholding Tax Event; or
- (iv) the relevant Tranche is not assigned an “equity credit” (or such similar nomenclature then used by Standard & Poor's or Fitch) at the time of such redemption or repurchase; or
- (v) such redemption or repurchase occurs on or after 18 June 2040 (in the case of the Euro Securities) and 18 June 2045 (in the case of the Sterling Securities).

**Form:**

The Securities will be in bearer form and each Tranche will initially be represented by a Temporary Global Security, without interest coupons or

talons attached, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Each Temporary Global Security will be exchangeable for interests in a Permanent Global Security, without interest coupons or talons attached, on or after a date which is expected to be 28 April 2013, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for Definitive Securities in bearer form in the denominations of (i) €100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000 in respect of the Euro Securities and (ii) £100,000 and integral multiples of £1,000 in excess thereof up to, and including, £199,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in it. No Definitive Securities will be issued with a denomination above €199,000 in respect of the Euro Securities and above £199,000 in respect of the Sterling Securities. See “Summary of Provisions relating to the Securities while in Global Form”.

<b>Denominations:</b>	€100,000 and integral multiples of €1,000 in excess thereof up to, and including, €199,000 in respect of the Euro Securities and £100,000 and integral multiples of £1,000 in excess thereof up to, and including, £199,000 in respect of the Sterling Securities.
<b>Listing and Admission to Trading:</b>	Applications will be made to the UK Listing Authority for each Tranche to be admitted to the Official List and to the London Stock Exchange for each Tranche to be admitted to trading on the Market.
<b>Governing Law of the Securities and the Guarantee:</b>	English law.
<b>Ratings:</b>	Each Tranche is expected to be rated BBB- by Fitch, BBB by Standard & Poor's and Baa3 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and registered under the CRA Regulation.
<b>Use of Proceeds:</b>	The net proceeds of the issue of the Securities will be used for general corporate purposes.
<b>Selling Restrictions:</b>	The United States, the United Kingdom, Hong Kong, Singapore and Japan. See “Subscription and Sale”.
<b>Risk Factors:</b>	Prospective investors should carefully consider the information set out in “Risk Factors” in conjunction with the other information contained or incorporated by reference in this Prospectus.
<b>ISIN:</b>	XS0903531795 in respect of the Euro Securities and XS0903532090 in respect of the Sterling Securities.
<b>Common Code:</b>	090353179 in respect of the Euro Securities and 090353209 in respect of the Sterling Securities.

## **RISK FACTORS**

*Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Securities or the Guarantee, as the case may be. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.*

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

*The Issuer and the Guarantor believe that the factors described below represent all the material risks known to them as of the date of this Prospectus inherent in investing in the Securities, but the Issuer and/or the Guarantor may be unable to pay interest, principal or other amounts on or in respect of the Securities for other reasons, and the Issuer and the Guarantor do not represent that the statements below regarding the risks of holding the Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's and the Guarantor's ability to fulfil their respective obligations under or in connection with the Securities**

#### ***Risk relating to the Issuer and its business***

The Issuer's only business is to act as a finance subsidiary of the Guarantor and it has no assets other than the amounts representing the proceeds of its issued and paid-up share capital, such fees (if any) payable to it in connection with the issue of the Securities or entry into of other obligations from time to time and any on-loan made by it of the proceeds of the issue of the Securities. Therefore, the Issuer is subject to all risks to which the Guarantor is subject, to the extent that such risks could limit the Guarantor's ability to satisfy, in full and on a timely basis, its obligations under or in connection with the Guarantee and the Securities. See "Risks relating to the Guarantor and its business" below.

#### ***Risks relating to the Guarantor and its business***

##### ***Harmful activities***

Aspects of the Guarantor's activities are potentially hazardous or could damage the environment.

Potentially hazardous activities that arise in connection with the Guarantor's business include the operation and maintenance of electricity generation facilities, electricity lines and substations and the storage, transmission and distribution of gas. The Guarantor is subject to laws and regulations in the U.K. and the U.S. governing health and safety matters protecting the public and its employees, who could potentially be harmed by these activities. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of the Guarantor's operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. The Guarantor is subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose the Guarantor to costs and liabilities relating to the Guarantor's operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Guarantor and sites used for the disposal of its waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and the Guarantor's share of the liability. The Guarantor is increasingly subject to regulation in relation to climate change and is affected by requirements to reduce its own carbon emissions as well as reduction in energy use by its customers. The Guarantor commits significant

expenditure towards complying with these laws and regulations and to meeting its obligations under negotiated settlements. If more onerous requirements are imposed or the Guarantor's ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on the Guarantor's businesses, reputation, results of operations and financial position. Furthermore, any breach of the Guarantor's regulatory or contractual obligations or its climate change targets, or even incidents that do not amount to a breach, could materially adversely affect the Guarantor's results of operations and its reputation.

### ***Infrastructure and IT systems***

The Guarantor may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations.

Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This could cause the Guarantor to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming the Guarantor's reputation. In addition to these risks, the Guarantor may be affected by other potential events that are largely outside the Guarantor's control such as the impact of weather (including as a result of climate change and major storms such as Hurricane Sandy), unlawful or unintentional acts of third parties, insufficient supply or force majeure. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will materially adversely affect operational and potentially business performance and the Guarantor's reputation. Malicious attack, sabotage or other intentional acts may also damage the Guarantor's assets or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on its business, results of operations and financial condition. Attempts may be made to gain unauthorised access to, or deliberately breach, the Guarantor's IT systems with a view to access and manipulate the Guarantor's proprietary business data or customer information. The Guarantor may be liable for violation of data privacy regulations if such attempts are successful. Even though the Guarantor has established business continuity controls, and taken security measures against such threats, these measures may not be sufficient.

### ***Law and regulation***

*Changes in law or regulation and decisions by governmental bodies or regulators could materially adversely affect the Guarantor.*

Many of the Guarantor's businesses are utilities or networks that are subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent, including decisions of governmental bodies or regulators, in the countries or states in which the Guarantor operates (including the new RIIIO approach in the U.K.), could materially adversely affect the Guarantor. Decisions or rulings concerning, for example: (i) whether licences, approvals or agreements to operate or supply are granted or are renewed, or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on the Guarantor, its markets and customers, implications of climate change, the level of permitted revenues and dividend distributions for the Guarantor's businesses and in relation to proposed business development activities, could have a material adverse impact on the Guarantor's results of operations, cash flows, the financial condition of the Guarantor's businesses and the ability to develop those businesses in the future.

### ***Business development activity***

*New businesses or activities that the Guarantor undertakes alone, or with partners, may not result in positive earnings and may expose the Guarantor to additional operational and financial risk.*

Business development activities, including acquisitions, disposals and joint ventures entail a number of risks, including that they may be based on incorrect assumptions or conclusions, failure to realise planned levels of synergy and efficiency savings, the inability to integrate acquired businesses effectively and the Guarantor may suffer on account of unanticipated costs and liabilities and other unanticipated effects. The Guarantor may also be liable for the past acts, omissions or liabilities of companies or businesses it has acquired, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. In the case of joint ventures, the Guarantor may have limited control over operations and its joint venture partners may have interests that diverge from the Guarantor's interests. The occurrence of any of these events could have a material adverse impact on the Guarantor's results of operations or financial condition, and could also impact its ability to enter into other transactions.

### ***Business Performance***

*Future business performance may not meet expectations.*

Earnings maintenance and growth from the Guarantor's regulated gas and electricity businesses will be affected by the Guarantor's ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, its regulators. In addition, from time to time, the Guarantor publishes cost and efficiency savings targets for its businesses. If the Guarantor does not meet these targets and standards, or if it does not deliver the capital investment in its business plan or implement the transformation projects it is carrying out as envisaged, or is not able to shape its operating model to deliver success under RIIIO, it may not achieve the expected benefits, its business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed.

### ***Cost escalation***

*Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or the Guarantor's financial condition.*

The Guarantor has significant operations in the U.S. and is therefore subject to the exchange rate risks normally associated with non-domestic U.K. operations, including the need to translate U.S. assets and liabilities, and income and expenses, into sterling, the Guarantor's primary reporting currency. In addition, the Guarantor's results of operations and net debt position may be affected because a significant proportion of its borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar to sterling exchange rate. Furthermore, the Guarantor's cash flow may be materially affected as a result of settling hedging arrangements entered into to manage its exchange rate, interest rate and commodity price exposure or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into Euro and other currencies.

*Operating costs may increase faster than revenues.*

The Guarantor's income under its price controls in the U.K. is linked to the retail price index ("RPI"). The Guarantor's operating costs may increase without a corresponding increase in the RPI and therefore without a corresponding increase in U.K. revenues. The Guarantor's income under its rate plans in the U.S. is not typically linked to inflation. In periods of inflation in the U.S., the Guarantor's operating costs may increase by more than its revenues. In both the U.K. and U.S. such increased costs may materially adversely affect the Guarantor's results of operations.



*The Guarantor may be required to make significant contributions to fund pension and other post-retirement benefits.*

The Guarantor participates in a number of pension schemes that together cover substantially all of its employees. In both the U.K. and the U.S., the principal schemes are defined benefit schemes where the scheme assets are held independently of the Guarantor's own financial resources. In the U.S., the Guarantor also has other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the U.K. and U.S. schemes are based on actuarial assumptions and other factors including the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. Actual performance of scheme assets may be affected by volatility in debt and equity markets, exacerbated by the eurozone crisis. Changes of these assumptions and other factors may require the Guarantor to make additional contributions to these pension schemes which, to the extent they are not recoverable under its price controls or state rate plans, could materially adversely affect the Guarantor's results of operations and financial condition.

### ***Financing and liquidity***

*Maintenance and growth of the Guarantor's business requires access to capital markets at commercially acceptable interest rates.*

The Guarantor's business is financed through cash generated from its ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets. Some of the debt issued by the Guarantor is rated by credit rating agencies and changes to these ratings may affect both the Guarantor's borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how the Guarantor services the financial requirements of its current businesses or the financing of newly acquired or developing businesses. Financial markets can be subject to periods of volatility and shortages of liquidity which may be exacerbated by the eurozone crisis. If the Guarantor were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, the Guarantor's cost of financing may increase, the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered and the manner in which the Guarantor implements its strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on the Guarantor's business, results of operations and prospects.

Some of the Guarantor's regulatory agreements impose lower limits for the long term senior unsecured debt credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. One of the key limits requires the Guarantor to hold an investment grade long term senior unsecured debt credit rating. In addition, some of the Guarantor's regulatory arrangements impose restrictions on its ways of operation. These include regulatory requirements for the Guarantor to maintain adequate financial resources within certain parts of its operating businesses and may restrict the ability of the Guarantor and some of its subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges. The inability to meet such requirements or imposition of any such restrictions may have a material adverse impact on the Guarantor's business and financial condition.

### ***Customers and counterparties***

*Customers and counterparties may not perform their obligations.*

The Guarantor's operations are exposed to the risk that customers, suppliers, financial institutions and others with whom the Guarantor does business will not satisfy their obligations, which could materially adversely affect its financial position. This risk is most significant where the Guarantor's subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates (such as the Long Island Power Authority ("LIPA")), as well as industrial customers and other purchasers and may also arise where customers are unable to pay the Guarantor as a result of increasing commodity prices or adverse economic conditions.

### ***Employees and others***

*The Guarantor needs to attract and retain employees with the skills and experience required to deliver its strategy and ensure they are engaged to act in the Guarantor's best interests.*

The Guarantor's ability to implement its strategy depends on the capabilities and performance of its employees and strategy may be adversely affected by the loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited), or if significant disputes arise with its employees and, as a result, there may be a material adverse effect on its business, financial condition, results of operations and prospects. There is a risk that an employee or someone acting on the Guarantor's behalf may breach its internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the Guarantor's reputation and its relationship with its regulators and other stakeholders which in turn could materially adversely affect its business and results of operations.

### **Risks related to the Securities generally**

Set out below is a brief description of the material risks relating to the Securities generally:

#### ***Modification, Waiver and Substitution***

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

The relevant Conditions will also provide that the Trustee may, without the consent of the relevant Holders, agree to (i) any modification of the relevant Conditions or of any other provisions of the relevant Trust Deed or the relevant Paying Agency Agreement (as defined below) which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification to (except as mentioned in the relevant Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer and/or the Guarantor of, any of the relevant Conditions or of the provisions of the relevant Trust Deed or the relevant Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the relevant Holders (which will not include, for the avoidance of doubt, any provision entitling the relevant Holders to institute proceedings for the winding-up of the Issuer and/or the Guarantor in circumstances which are more extensive than those set out in the relevant Condition 12), (iii) subject, *inter alia*, to the Trustee being satisfied that the interests of the relevant Holders and Couponholders will not be materially prejudiced by the substitution, the substitution on a subordinated basis equivalent to that referred to in the relevant Conditions 2, 3 and 4 of any other company in place of the Issuer or the Guarantor, as the case may be, (or any previous Substituted Obligor (as defined in the relevant Condition 15)) as a new principal debtor under the relevant Trust Deed, the relevant Securities, the relevant Coupons and the relevant Talons or, in the case of the Guarantor, a new guarantor under the relevant Trust Deed on terms *mutatis mutandis* as those of the Guarantee or (iv) either (a) substitute all, but not some only, of the relevant Tranche for, or (b) vary the terms of the relevant Tranche with the effect that the Securities of such Tranche remain or become, as the case may be, Qualifying Securities, in each case upon the occurrence of a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event and subject to the receipt by the Trustee of the certificate of the directors of the Guarantor referred to in the relevant Condition 9 thereof.

Any such modification, waiver, and/or substitution may have a significant adverse impact on the price of, and/or the market for, the Notes.

### ***European Monetary Union***

If the United Kingdom joins the European Monetary Union prior to the maturity of the Sterling Securities, there is no assurance that this would not adversely affect investors in the Sterling Securities. It is possible that prior to the maturity of the Sterling Securities 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 the Sterling Securities may become payable in euro (ii) the law may allow or require such Sterling Securities to be re-denominated into euro and additional measures to be taken in respect of such Sterling Securities; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on the Sterling Securities 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 Sterling Securities.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest (or similar income) may request that no tax be withheld). 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 Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with or introduced in order to conform with, such Directive, none of the Issuer, the Guarantor, any Paying Agent or any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. The Issuer and the Guarantor are required to maintain a Paying Agent having a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with or introduced in order to conform with, such Directive.

### ***Change of law***

The Conditions will be based on English law in effect as at the Issue Date. 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 the issue of the Securities.

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

Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Euro Securities on 18 June 2076 and the Sterling Securities on 18 June 2073, each at their principal amount together with any accrued and unpaid interest to such date (including any accrued but unpaid Deferred Interest). However, each Tranche may be redeemed, at the option of the Issuer and subject to the relevant provisions in Conditions 7 and 9, in whole but not in part on any Optional Redemption Date, at their principal amount

together with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest).

In addition, upon the occurrence of a Rating Capital Event, a Substantial Repurchase Event, a Tax Deductibility Event or a Withholding Tax Event, and subject to the relevant provisions in Conditions 7 and 9, the Issuer shall have the option to redeem, in whole but not in part, the relevant Tranche at (i) 101 per cent. of its principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date, including any accrued but unpaid Deferred Interest (in the case of a Rating Capital Event or a Tax Deductibility Event where any such redemption occurs before the First Reset Date) or (ii) its principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date, including any accrued but unpaid Deferred Interest (in the case of a Substantial Repurchase Event or a Withholding Tax Event where any such redemption occurs at any time or in the case of a Rating Capital Event or a Tax Deductibility Event where any such redemption occurs on or after the First Reset Date).

Furthermore, if a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event occurs, then, subject to the provisions of the relevant Conditions 8 and 9, the Issuer may at any time, instead of giving notice to redeem the relevant Tranche, substitute all, but not some only, of such Tranche for, or vary the terms of such Tranche so that the Securities of such Tranche remain or become, as the case may be, Qualifying Securities.

The Issuer may be expected to redeem the relevant Tranche when its cost of borrowing is lower than the interest payable on it. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest payable on the relevant Tranche 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.

***An optional redemption feature is likely to limit the market value of the relevant Tranche***

During any period when the Issuer may elect to redeem the relevant Tranche, the market value of that Tranche generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

***Integral multiples of less than the specified denomination***

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

***The Issuer's and the Guarantor's obligations in respect of the Securities are subordinated***

The Issuer's obligations under the Securities will be unsecured and subordinated. In the event that an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a "successor in business" of the Issuer) or an administrator of the Issuer has been appointed and such administrator gives notice that it intends to declare and distribute a dividend, the claims of the Holders will rank (i) junior to the claims of holders of all Senior

Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Securities of the Issuer and (iii) in priority to the claims of holders of the ordinary share capital of the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary share capital.

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

See "Terms and Conditions of the Euro Securities — Status of the Securities and the Coupons", "Terms and Conditions of the Euro Securities — Subordination of the Securities and the Coupons", "Terms and Conditions of the Euro Securities — Guarantee", "Terms and Conditions of the Sterling Securities — Status of the Securities and the Coupons", "Terms and Conditions of the Sterling Securities — Subordination of the Securities and the Coupons" and "Terms and Conditions of the Sterling Securities — Guarantee".

By virtue of such subordination, (i) in relation to the Issuer but without prejudice to the rights of the Trustee, the relevant Holders and the relevant Couponholders under the Guarantee, the claims of holders of all Senior Obligations of the Issuer will first have to be satisfied in any winding-up or analogous proceedings of the Issuer before the relevant Holders or relevant Couponholders may expect to receive from the Issuer any recovery in respect of their Securities or matured but unpaid Coupons and (ii) in relation to the Guarantor but without prejudice to the rights of the Trustee, the relevant Holders and the relevant Couponholders against the Issuer, the claims of holders of all Senior Obligations of the Guarantor will first have to be satisfied in any winding-up or analogous proceedings of the Guarantor before the relevant Holders or relevant Couponholders may expect to receive from the Guarantor any recovery in respect of their Securities or matured but unpaid Coupons. A Holder may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer and the Guarantor. Furthermore, the Conditions will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the relevant Securities or the Guarantee, as the case may be, which may be incurred or assumed by the Issuer and/or the Guarantor from time to time, whether before or after the Issue Date. Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer and/or the Guarantor in respect of, or arising under or in connection with, the relevant Securities and each Holder shall, by virtue of his holding, be deemed to have waived all such rights of set-off, compensation or retention.

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

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

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on the Securities, subject to limited exceptions. See "Terms and Conditions of the Euro Securities — Optional Interest Deferral" and "Terms and Conditions of the Sterling Securities — Optional Interest Deferral".

Any such deferral of interest payments shall not constitute a default for any purpose unless such payments are required to be made in accordance with Condition 6(c) of the relevant Tranche and are not so paid within the applicable grace period.

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

### ***Limited Remedies***

The only event of default in the Conditions is if a default is made by the Issuer or the Guarantor for a period of 30 days or more in relation to the payment of any interest in respect of the relevant Securities, which is due and payable.

Therefore, it will only be possible for the Trustee on behalf of the relevant Holders to enforce claims for payment of principal or interest of the relevant Securities or the Guarantee when the same are due and payable.

In addition, in the event that an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a "successor in business" of the Issuer) or an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders against the Issuer will be subordinated in accordance with Condition 3(a) thereof. Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders under the Guarantee, the claims of holders of all Senior Obligations of the Issuer will first have to be satisfied in any winding-up or analogous proceedings before the relevant Holders or relevant Couponholders may expect to obtain any recovery in respect of their Securities or matured but unpaid Coupons and prior thereto the relevant Holders and Couponholders will have only limited ability to influence the conduct of such winding-up or analogous proceedings.

Furthermore, in the event that an order is made, or an effective resolution is passed, for the winding-up of the Guarantor (otherwise than for the purposes of a solvent winding-up or substitution in place of the Guarantor of a "successor in business" of the Guarantor) or an administrator of the Guarantor is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders under the Guarantee will be subordinated in accordance with Condition 4(c) thereof. Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders against the Issuer, the claims of holders of all Senior Obligations of the Guarantor will first have to be satisfied in any winding-up or analogous proceedings before the relevant Holders or relevant Couponholders may expect to obtain from the Guarantor any recovery pursuant to the Guarantee in respect of their Securities or matured but unpaid Coupons and prior thereto the relevant Holders and Couponholders will have only limited ability to influence the conduct of such winding-up or analogous proceedings.

### **Risks related to the market generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### ***The secondary market generally***

Although application will be made to admit the Securities to trading on the Market, the Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been prepared to meet the investment requirements of limited categories of investors. These types of Securities generally would have a more

limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Securities.

### ***The clearing systems***

Because the Global Securities will be held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Global Securities will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Security, investors will not be entitled to receive Definitive Securities. Euroclear and Clearstream, Luxembourg will maintain records of the interests in the Global Securities. While the Securities are represented by one or more Global Securities, investors will be able to trade their interests only through Euroclear or Clearstream, Luxembourg.

While Securities are represented by one or more Global Securities, the Issuer will discharge its payment obligations under such Securities by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of an interest in a Global Security must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Securities. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, interests in the Global Securities.

Holders of interests in the Global Securities will not have a direct right to vote in respect of the relevant Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear or Clearstream, Luxembourg.

### ***Exchange rate risks and exchange controls***

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

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

### ***Interest rate risks***

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

### ***Credit ratings may not reflect all risks***

The credit ratings assigned to the Securities may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities. A credit rating is not a recommendation to buy, sell or hold Securities and may be revised or withdrawn by the rating agency at any time.

## TERMS AND CONDITIONS OF THE EURO SECURITIES

*The following, except for paragraphs in italics, are the terms and conditions of the Euro Securities which will be endorsed on each Euro Security in definitive form (if issued).*

The issue of the €1,250,000,000 Capital Securities due 2076 (the “**Securities**”, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 19 and forming a single series with the Securities) of NGG Finance plc (the “**Issuer**”) was authorised by a resolution of the Finance Committee of the board of directors of the Issuer passed on 23 January 2013. The obligations of the Issuer in respect of the Securities, the Coupons (as defined below) and the Trust Deed are guaranteed (such guarantee, the “**Guarantee**”) by National Grid plc (the “**Guarantor**”) as described below and in the Trust Deed. The Guarantee was authorised by a resolution of the Finance Committee of the board of directors of the Guarantor passed on 23 January 2013. The Securities are constituted by a trust deed (the “**Trust Deed**”) dated 18 March 2013 between the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Securities (the “**Holders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities, of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)), of the Talons appertaining to Securities in definitive form and of the Guarantee. Copies of (i) the Trust Deed and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 18 March 2013 relating to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

### 1. **Form, Denomination and Title**

#### (a) *Form and Denomination*

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

#### (b) *Title*

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

### 2. **Status of the Securities and the Coupons**

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference or priority among themselves and with any Parity



Securities of the Issuer. The rights and claims of the Holders in respect of the Securities and the Couponholders in respect of the Coupons, in each case against the Issuer are subordinated as described in Condition 3.

### 3. Subordination of the Securities and the Coupons

#### (a) General

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a “successor in business” (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each Security and matured but unpaid Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon), such amounts, if any, as would have been payable to the Holder of such Security and Couponholder if, on the day prior to the commencement of the winding-up or such administration, as the case may be, and thereafter, such Holder and Couponholder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares of the Issuer**”) having an equal right to a return of assets in the winding-up or such administration, as the case may be, and so ranking *pari passu* with, the holders of that class or classes of preference shares (if any) which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of the ordinary share capital of the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary shares, but ranking junior to the claims of holders of all Senior Obligations of the Issuer (except as otherwise provided by mandatory provisions of law), on the assumption that the amounts that such Holder and Couponholder were entitled to receive in respect of each Notional Preference Share of the Issuer on a return of assets in such winding-up or such administration, as the case may be, were, in the case of a Security and its Holder, an amount equal to the principal amount of the relevant Security and, in the case of a Coupon and its Couponholder, any accrued and unpaid interest represented by such Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon). For the purpose of construing the provisions of the Guarantee and the Guarantor's payment obligations in respect thereof, the latter amounts shall be treated as due and payable by the Issuer on the date such order is made or such resolution is passed or notice is given, as the case may be and, consequently, a claim under the Guarantee in respect of such amount may be made on, or at any time after, such date.

*Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders under the Guarantee, the claims of holders of all Senior Obligations of the Issuer will first have to be satisfied in any winding-up or analogous proceedings of the Issuer before the Holders or Couponholders may expect to obtain from the Issuer any recovery in respect of their Securities or matured but unpaid Coupons (including any accrued but unpaid Deferred Interest in respect of such Coupons), as the case may be, and prior thereto any Holder or Couponholder will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.*

(b) *Set-off*

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

4. **Guarantee**

(a) *Guarantee*

The payment of the principal, premium and interest in respect of the Securities and the Coupons and all other monies payable by the Issuer under or pursuant to the Securities, the Coupons and/or the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Guarantee.

(b) *Status of the Guarantee*

The obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor and rank *pari passu* and without any preference or priority among themselves and with any Parity Securities of the Guarantor. The rights and claims of the Holders and the Couponholders in respect of the Guarantee against the Guarantor are subordinated as described in Condition 4(c).

(c) *Subordination of the Guarantee*

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Guarantor (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Guarantor of a “successor in business” (as defined in the Trust Deed) of the Guarantor, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Guarantor being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

there shall be payable by the Guarantor under the Guarantee in respect of each Security and matured but unpaid Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon), such amounts, if any, as would have been payable to the Holder of such Security and Couponholder if, on the day prior to the commencement of the winding-up or such administration, as the case may be, and thereafter, such Holder and Couponholder were the holder of one of a class of preference shares in the capital of the Guarantor (“**Notional Preference Shares of the Guarantor**”) having an equal right to a return of assets in the winding-up or such administration, as the case may be, and so ranking *pari passu* with, the holders of that class or classes of preference shares (if any) which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of the ordinary share capital of the Guarantor and any other obligations of the Guarantor, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary shares, but ranking junior to the claims of holders of all Senior Obligations of the Guarantor (except as otherwise provided by mandatory provisions of law), on the assumption that the amounts that

such Holder and Couponholder were entitled to receive in respect of each Notional Preference Share of the Guarantor on a return of assets in such winding-up or such administration, as the case may be, were, in the case of a Security and its Holder, an amount equal to the principal amount of the relevant Security and, in the case of a Coupon and its Couponholder, any accrued and unpaid interest represented by such Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon).

*Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders against the Issuer, the claims of holders of all Senior Obligations of the Guarantor will first have to be satisfied in any winding-up or analogous proceedings of the Guarantor before the Holders or Couponholders may expect to obtain from the Guarantor any recovery pursuant to the Guarantee in respect of their Securities or matured but unpaid Coupons (including any accrued but unpaid Deferred Interest in respect of such Coupons), as the case may be, under the Guarantee and prior thereto any Holder or Couponholder will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.*

**(d) Set-off**

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

**5. Interest Payments**

**(a) Interest Payment Dates**

The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) 18 March 2013 (the “**Issue Date**”) up to (but excluding) the Maturity Date in accordance with the provisions of this Condition 5.

Subject to Condition 6, interest shall be payable on the Securities annually in arrear on 18 June in each year (each an “**Interest Payment Date**”) and ending on the Maturity Date, as provided in this Condition 5, except that the first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014.

**(b) Interest Accrual**

The Securities (and any unpaid amounts thereon) will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 7 or the date of substitution or variation thereof pursuant to Condition 8, as the case may be, unless, upon due presentation, payment of all unpaid amounts in respect of the Securities is not made, in which event interest shall continue to accrue in respect of the principal amount of, and any other unpaid amounts on, the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Other than where it is necessary to compute an amount of interest in respect of any Security for a period which is more than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or, as the case may be, the first) scheduled Interest Payment Date

(“**day-count fraction**”). Where it is necessary to compute an amount of interest in respect of any Security for a period of more than one year, such interest shall be the aggregate of the interest computed in respect of a full year plus the interest computed in respect of the period exceeding the full year calculated in the manner as aforesaid.

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

(c) ***Initial Interest Rate***

The Interest Rate in respect of each Interest Period ending on or before the First Reset Date is 4.250 per cent. per annum (the “**Initial Interest Rate**”). The Interest Payment in respect of each such Interest Period will amount to €42.50 per Calculation Amount. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to €53.21 per Calculation Amount.

(d) ***Reset Interest Rates***

The Interest Rate in respect of each Interest Period falling in a Reset Period shall be the aggregate of the relevant Margin and the relevant 7 year Swap Rate for such Reset Period, all as determined by the Calculation Agent (each a “**Reset Interest Rate**”).

(e) ***Determination of Reset Interest Rates and Calculation of Interest Amounts***

The Calculation Agent will, as soon as practicable after 11.00 hours (Central European time) on each Reset Interest Determination Date, determine the Reset Interest Rate in respect of the relevant Reset Period and calculate the amount of interest payable in respect of a Calculation Amount on each Interest Payment Date falling in the period from (but excluding) such relevant Reset Date to (and including) the next Reset Date (the “**Interest Amount**”).

(f) ***Publication of Reset Interest Rates and Interest Amounts***

Unless the Securities are to be redeemed on the First Reset Date, the Issuer (failing which the Guarantor) shall cause notice of each Reset Interest Rate and the related Interest Amount per Calculation Amount to be given to the Trustee, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 18, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(g) ***Calculation Agent and Reference Banks***

Unless the Securities are to be redeemed on the First Reset Date, the Issuer and the Guarantor will, no later than fourteen days before the first Reset Interest Determination Date, appoint and thereafter maintain a Calculation Agent.

The Issuer and the Guarantor may, with the prior written approval of the Trustee, from time to time replace the Calculation Agent with another independent financial institution. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails to determine a Reset Interest Rate or calculate the related Interest Amount or effect the required publication thereof (in

each case as required pursuant to these Conditions), the Issuer and the Guarantor shall forthwith appoint another independent financial institution approved in writing by the Trustee to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

*(h) Determinations of Calculation Agent Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Calculation Agent, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders, the Issuer or the Guarantor shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

**6. Optional Interest Deferral**

*(a) Deferral of Interest Payments*

The Issuer may elect to defer all or part of any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date (except on the Maturity Date) by giving notice (a “**Deferral Notice**”) of such election to the Holders in accordance with Condition 18, the Trustee and the Principal Paying Agent not more than 30 nor less than 7 Business Days prior to the relevant Interest Payment Date.

If any Interest Payment, or part thereof, is deferred pursuant to this Condition 6(a) then such Interest Payment (or part thereof) shall constitute a deferred Interest Payment and shall itself bear interest (such further interest together with the deferred Interest Payment, constituting, for as long as it has not been paid “**Deferred Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Deferred Interest Settlement Date (as defined below) or, as appropriate, such other date on which such deferred Interest Payment is paid in accordance with Condition 6(c), in each case such further interest being compounded on each Interest Payment Date.

Deferred Interest may be paid at the option of the Issuer in whole or in part at any time (the “**Deferred Interest Settlement Date**”) following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 18, the Trustee and the Principal Paying Agent not more than 30 nor less than 7 Business Days prior to the relevant Deferred Interest Settlement Date informing them of its election to so settle such Deferred Interest (or part thereof) and specifying the relevant Deferred Interest Settlement Date.

The deferral of an Interest Payment (or part thereof) in accordance with this Condition 6(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

*(b) Payment Restriction for the Issuer and the Guarantor*

As long as Deferred Interest remains outstanding neither the Issuer nor the Guarantor shall:

- (i) declare or pay any distribution or dividend (other than a dividend declared by the Issuer or the Guarantor, as the case may be, before the Issuer gives notice that such Interest Payment is to be deferred) or make any other payment on, and will procure that no distribution or dividend or other payment is made by any Subsidiary of the Issuer and/or the Guarantor, as

the case may be, on, the ordinary share capital of the Issuer or the Guarantor or any Parity Securities of the Issuer or any Parity Securities of the Guarantor (which, for the avoidance of doubt, does not preclude the payment or making of a dividend or distribution by any Subsidiary of the Issuer and/or the Guarantor on any of its share capital or other securities which do not benefit from a guarantee or support agreement of the type referred to in the definition of either Parity Securities of the Issuer or Parity Securities of the Guarantor) except where such distribution or dividend or other payment was required to be made in respect of any stock option plan of the Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor; or

- (ii) redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any Subsidiary of the Issuer and/or the Guarantor of, any ordinary shares of the Issuer, any ordinary shares of the Guarantor, any Parity Securities of the Issuer or any Parity Securities of the Guarantor, except where such redemption, purchase, cancellation, reduction or other acquisition was required to be made in respect of any stock option plan or employee share scheme of the Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor,

until the date on which payment is made in full of all outstanding Deferred Interest.

The restriction in part (i) of the foregoing paragraph shall not apply to any *pro rata* payment of deferred interest on a Parity Security of the Issuer and/or any Parity Security of the Guarantor which is made simultaneously with a *pro rata* payment of any Deferred Interest provided that such *pro rata* payment on a Parity Security of the Issuer and/or a Parity Security of the Guarantor is not proportionately more than the *pro rata* settlement of any such Deferred Interest.

**(c) *Deferred Interest***

Notwithstanding the provisions of Condition 6(a), the Issuer shall pay any accrued but unpaid Deferred Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the date on which the Securities are redeemed or repaid in accordance with Condition 3, Condition 4, any paragraph of Condition 7 or Condition 12; and
- (ii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities in accordance with Condition 8.

**7. *Redemption***

**(a) *Final Redemption Date***

Unless previously repaid, redeemed or purchased and cancelled as provided in these Conditions, the Securities will be redeemed on the Maturity Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the Maturity Date (including any accrued but unpaid Deferred Interest).

**(b) *Issuer's Call Option***

The Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on any Optional Redemption Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest).

(c) ***Redemption for Taxation Reasons***

If, immediately prior to the giving of the notice referred to below, a Tax Deductibility Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at 100 per cent. of their principal amount in the case of a Withholding Tax Event, or, in the case of a Tax Deductibility Event, (i) 101 per cent. of their principal amount where such redemption occurs before the First Reset Date, or (ii) 100 per cent. of their principal amount where such redemption occurs on or after the First Reset Date, together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

(d) ***Redemption for Rating Reasons***

If, immediately prior to the giving of the notice referred to below, a Rating Capital Event has occurred and is continuing, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at (i) 101 per cent. of their principal amount, where such redemption occurs before the First Reset Date, or (ii) 100 per cent. of their principal amount, where such redemption occurs on or after the First Reset Date, together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) ***Redemption Following Substantial Repurchase***

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

**8. Substitution or Variation**

If a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 9 (without any requirement for the consent or approval of the Holders or Couponholders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 8 have been complied with, and having given not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 8 and subject to the receipt by it of the certificate of the directors of the Guarantor referred to in Condition 9 below) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 8.

In connection therewith, any accrued but unpaid Deferred Interest will be satisfied in full in accordance with the provisions of Condition 6(c).

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as the case may be, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities, or the participation in or assistance with such substitution or variation, would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 7.

In connection with any substitution or variation in accordance with this Condition 8, the Issuer and the Guarantor shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

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

## **9. Preconditions to Special Event Redemption, Substitution and Variation**

Prior to the publication of any notice of redemption pursuant to Condition 7 (other than redemption pursuant to Condition 7(b)) or any notice of substitution or variation pursuant to Condition 8, the Guarantor shall deliver to the Trustee a certificate signed by two directors of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied, and where the relevant Special Event requires measures reasonably available to the Issuer or the Guarantor, as the case may be, to be taken, the relevant Special Event cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such measures. In relation to a substitution or variation pursuant to Condition 8, such certificate shall also include further certifications that the terms of the Qualifying Securities are not materially less favourable to Holders than the terms of the Securities, that such determination was reached by the Guarantor in consultation with an independent investment bank or counsel and that the criteria specified in paragraphs (a) to (h) of the definition of Qualifying Securities will be satisfied by the Qualifying Securities upon issue. The Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs, in which event it shall be conclusive and binding on the Holders and the Couponholders.

Any redemption of the Securities in accordance with Condition 7 or any substitution or variation of the Securities in accordance with Condition 8 shall be conditional on all accrued but unpaid Deferred Interest being paid in full in accordance with the provisions of Condition 6 on or prior to the date of such redemption, substitution or, as the case may be, variation, together with any accrued and unpaid interest up to (but excluding) such redemption, substitution or, as the case may be, variation date.

The Trustee is under no obligation to ascertain whether any Special Event or any event which could lead to the occurrence of, or could constitute, any such Special 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 that no such Special Event or such other event has occurred.

## **10. Purchases and Cancellation**

### **(a) Purchases**

Each of the Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price.



In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

**(b) Cancellation**

All Securities redeemed or substituted by the Issuer pursuant to Condition 7 or 8, as the case may be, (together with all unmatured Coupons and unexchanged Talons relating thereto) will forthwith be cancelled. All Securities purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may, at the option of the Issuer or the Guarantor, as the case may be, be held, reissued, resold or surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons attached to them) to a Paying Agent. Securities held by the Issuer, the Guarantor and/or any of their respective Subsidiaries shall not entitle the holder to vote at any meeting of Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Holders or for any other purpose specified in Condition 15.

**11. Payments**

**(a) Method of Payment**

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on a Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Securities. Such payments will be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the Target System.
- (ii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 14).

**(b) Payments Subject to Fiscal Laws**

Without prejudice to the terms of Condition 13, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

**(c) Days for Payments**

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

## **12. Events of Default**

### **(a) *Proceedings***

If a default is made by the Issuer or the Guarantor for a period of 30 days or more in relation to the payment of principal or in respect of any interest in respect of the Securities which is due and payable, then the Issuer and/or the Guarantor, as the case may be, shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its discretion may (subject to Condition 12(c)), and if so requested by the holders of at least one-quarter in principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution shall, institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in the winding-up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation or administration of the Issuer and/or the Guarantor for such payment and/or give notice to the Guarantor that the Securities are, and they shall immediately thereby become, due and repayable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date (including any accrued but unpaid Deferred Interest).

### **(b) *Enforcement***

The Trustee may at its discretion (subject to Condition 12(c)) and without further notice institute such proceedings against the Issuer and/or the Guarantor, as the case may be, as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor, as the case may be, under the Trust Deed, the Securities or the Coupons but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

### **(c) *Entitlement of Trustee***

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or 12(b) above against the Issuer and/or the Guarantor to enforce the terms of the Trust Deed, the Securities or the Coupons or any other action or step unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

### **(d) *Right of Holders***

No Holder or Couponholder shall be entitled to proceed directly against the Issuer and/or the Guarantor or to institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in the winding-up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation or administration of the Issuer and/or the Guarantor unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer and/or the Guarantor as those which the Trustee is entitled to exercise as set out in this Condition 12.

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

No remedy against the Issuer and/or the Guarantor, other than as referred to in this Condition 12, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Securities, the Coupons or under the Trust Deed (including the Guarantee) or in respect of any breach by the Issuer and/or the Guarantor of any of its/their other obligations under or in respect of the Securities, the Coupons or the Trust Deed.

### 13. Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Securities and the Coupons or by or on behalf of the Guarantor in respect of the Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes or duties of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom or any political subdivision of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is compelled by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“**Additional Amounts**”) as shall result in receipt by the Holders and the Couponholders of such amounts as would have been receivable in respect of the Securities or Coupons had no such withholding or deduction been made, except that no such Additional Amounts shall be payable in respect of any Security or Coupon:

- (a) presented for payment by or on behalf of, a person who is liable to such taxes or duties in respect of such Security or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Security or Coupon; or
- (b) presented for payment by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder would have been entitled to such additional amounts on presenting the same for payment on such 30th day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform with, such Directive; or
- (e) presented for payment by or on behalf of a Holder or Couponholder who would have been able to avoid such withholding or deduction (i) by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements (including, without limitation, the provision of information).

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

### 14. Prescription

Claims against the Issuer and/or the Guarantor in respect of Securities and Coupons (which for this purpose shall not include Talons) or under the Guarantee will become void unless presented for payment or made, as the case may be, within a period of 10 years in the case of Securities and the Guarantee (in respect of claims relating to principal and premium) and five years in the case of Coupons and the Guarantee (in respect of claims relating to interest) from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 14 or Condition 11(a)(iii).

## **15. Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests or those of Couponholders, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Holders holding not less than 10 per cent. in principal amount of the Securities for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, inter alia, the provisions regarding subordination referred to in Condition 3 and/or Condition 4, the terms concerning currency and due dates for payment of principal, any applicable premium or Interest Payments in respect of the Securities and reducing or cancelling the principal amount of any Securities, any applicable premium or the Interest Rate or modifying or cancelling the Guarantee) and certain other provisions of the Trust Deed, the quorum shall be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Securities for the time being outstanding.

The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 8 in connection with the substitution or variation of the terms of the Securities so that they remain or become Qualifying Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 8.

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

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 95 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer and/or the Guarantor of, any of these Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders and Couponholders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer and/or the Guarantor in circumstances which are more extensive than those set out in Condition 12). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders in accordance with Condition 18, as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders and Couponholders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a

subordinated basis equivalent to that referred to in Conditions 2, 3 and 4 of any other company (any such entity, a “**Substituted Obligor**”) in place of the Issuer or the Guarantor, as the case may be, (or any previous Substituted Obligor under this Condition) as, in the case of the Issuer, a new principal debtor under the Trust Deed, the Securities, the Coupons and the Talons or, in the case of the Guarantor, a new guarantor under the Trust Deed on terms *mutatis mutandis* as those of the Guarantee.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 15), the Trustee shall have regard to the general interests of the Holders and Couponholders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Guarantor, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders, except to the extent already provided in Condition 13 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 18 as soon as practicable thereafter.

#### **16. Replacement of the Securities, Coupons and Talons**

If any Security, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Holders in accordance with Condition 18, on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Security, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Securities, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Securities, Coupons or Talons must be surrendered before any replacement Securities, Coupons or Talons will be issued.

#### **17. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification or prefunding of, and/or provision of security for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor or any of their respective subsidiary undertakings, parent undertakings, joint ventures or associated undertakings without accounting for any profit resulting from these transactions and to act as trustee for the holders of any other securities issued by the Issuer, the Guarantor or any of their respective subsidiary undertakings, parent undertakings, joint ventures or associated undertakings. The Trustee may rely without liability to Holders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Holders.

## **18. Notices**

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

## **19. Further Issues**

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

## **20. Paying Agents**

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

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain a Paying Agent having its specified office in a major European city, which shall be London so long as the Securities are admitted to the Official List and admitted to trading on the London Stock Exchange's Regulated Market; and
- (c) at all times maintain a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform with, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 18.

If the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer and the Guarantor shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place.

## **21. Governing Law**

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

**22. Contracts (Rights of Third Parties) Act 1999**

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

**23. Definitions**

In these Conditions:

**“7 year Swap Rate”** means (i) the annualised mid-swap rate with a term of 7 years as displayed on Reuters screen “ISDAFIX2” as at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date or, (ii) if the 7 year Swap Rate does not appear on such screen page at such time on the relevant Reset Interest Determination Date, the 7 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date;

The **“7 year Swap Rate Quotations”** means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap which:

- (a) has a term of 7 years commencing on the relevant Reset Date;
- (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (c) has a floating leg based on the 6-month EURIBOR rate (calculated on an Act/360 day count basis);

**“2023 Step-up Date”** means 18 June 2023;

**“2040 Step-up Date”** means 18 June 2040;

**“Additional Amounts”** has the meaning given in Condition 13;

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

**“Calculation Agent”** means an independent financial institution appointed by the Issuer and the Guarantor;

**“Calculation Amount”** has the meaning given to it in Condition 5(b);

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

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

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

**“Deferred Interest”** has the meaning given in Condition 6(a);

**“Deferred Interest Settlement Date”** has the meaning given in Condition 6(a);

**“Deferral Notice”** has the meaning given in Condition 6(a);

**“euro” or “€”** means the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended;

**“First Reset Date”** means 18 June 2020;

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

**“Guarantor”** means National Grid plc;

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

**“Initial Interest Rate”** has the meaning given in Condition 5(c);

**“Interest Amount”** has the meaning given in Condition 5(e);

**“Interest Payment”** means, in respect the payment of interest on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the Coupon for the relevant Interest Period in accordance with Condition 5;

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

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

**“Interest Rate”** means the Initial Interest Rate or the relevant Reset Interest Rate, as the case may be;

**“Issue Date”** has the meaning given in Condition 5(a);

**“Issuer”** means NGG Finance plc;

**“Margin”** means (i) 2.88<sup>1</sup> per cent. per annum from and including the First Reset Date to (but excluding) the 2023 Step-up Date (ii) 3.13<sup>2</sup> per cent. per annum from (and including) the 2023 Step-up Date to (but excluding) the 2040 Step-up Date and (iii) 3.88<sup>3</sup> per cent. per annum from (and including) the 2040 Step-up Date to (but excluding) the Maturity Date;

**“Maturity Date”** means 18 June 2076;

**“Notional Preference Shares of the Guarantor”** has the meaning given in Condition 4;

**“Notional Preference Shares of the Issuer”** has the meaning given in Condition 3;

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

**“Optional Redemption Date”** means the First Reset Date and each Interest Payment Date thereafter;

**“Parity Securities of the Guarantor”** means (if any) the most junior class of preference share capital in the Guarantor and any other obligations of (i) the Guarantor, issued directly or indirectly

---

<sup>1</sup> Equivalent to the initial credit spread of the Securities.

<sup>2</sup> Equivalent to the initial credit spread of the Securities plus a 25 basis points step-up.

<sup>3</sup> Equivalent to the initial credit spread of the Securities plus a 100 basis points step-up



by it, which rank, or are expressed to rank, *pari passu* with the Guarantee or such preference shares or (ii) any Subsidiary of the Guarantor (other than the Securities) having the benefit of a guarantee or support agreement from the Guarantor which ranks or is expressed to rank *pari passu* with the Guarantee or such preference shares;

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

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

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

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

**“Qualifying Securities”** means securities that contain terms not materially less favourable to Holders than the terms of the Securities (as reasonably determined by the Guarantor (in consultation with an independent investment bank or counsel of international standing)) and provided that a certification to such effect (and confirming that the conditions set out in (a) to (h) below have been satisfied) of two directors of the Guarantor shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), provided that:

- (a) they shall be issued by the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor; and
- (b) they (and/or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* on a winding-up or administration (in circumstances where the administrator has given notice of its intention to declare and distribute a dividend) of the Issuer with the Securities and the Guarantor with the Guarantee; and
- (c) they shall contain terms which provide for the same Interest Rate from time to time applying to the Securities and preserve the same Interest Payment Dates; and
- (d) they shall preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer and the Guarantor as to redemption of the Securities, including (without limitation) as to timing of, and amounts payable upon, such redemption; and
- (e) they shall preserve any existing rights under these Conditions to any accrued interest, any Deferred Interest and any other amounts payable under the Securities which, in each case, has accrued to Holders and not been paid; and
- (f) they shall not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; and
- (g) they shall otherwise contain substantially identical terms (as reasonably determined by the Guarantor) to the Securities, save where any modifications to such terms are required to be made to avoid the occurrence or effect of a Rating Capital Event, a Tax Deductibility Event or, as the case may be, a Withholding Tax Event; and
- (h) they shall be (i) listed on the Official List and admitted to trading on the London Stock Exchange plc’s Regulated Market or (ii) listed on such other stock exchange as is a

Recognised Stock Exchange at that time as selected by the Guarantor and approved by the Trustee.

**“Rating Agency”** means Fitch Ratings Limited or any of its subsidiaries and their successors or Moody’s Investors Service, Ltd. or any of its subsidiaries and their successors or Standard & Poor’s Credit Market Services Europe Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Guarantor from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of the Holders);

a **“Rating Capital Event”** shall be deemed to occur if the Issuer and/or Guarantor has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency that, as a result of a change, or proposed change, in its hybrid capital methodology or the interpretation thereof which becomes, or would become, effective on or after 14 March 2013, the Securities will no longer be eligible for the same, or higher amount of, “equity credit” (or such other nomenclature as the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date or, if later, at the time when the relevant Rating Agency first publishes its confirmation of the “equity credit” attributed by it to the Securities;

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

**“Relevant Date”** means:

- (a) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor, as the case may be, in a winding-up or administration of the Issuer or the Guarantor, as the case may be, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 18; and
- (b) in respect of any sum (i) to be paid by or on behalf of the Issuer or the Guarantor, as the case may be, in a winding-up of the Issuer or the Guarantor, as the case may be, or (ii) if following the appointment of an administrator of the Issuer or the Guarantor, as the case may be, the administrator gives notice of an intention to declare and distribute a dividend, to be paid by the administrator by way of such dividend, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

**“Reset Date”** means the First Reset Date and each seventh anniversary thereof up to and including 18 June 2069;

**“Reset Interest Determination Date”** means the day falling two Business Days prior to the relevant Reset Date;

**“Reset Interest Rate”** has the meaning given in Condition 5(d);

**“Reset Period”** means each period beginning on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date thereafter and **“relevant Reset Period”** shall be construed accordingly;

**“Reset Reference Bank Rate”** means the percentage rate determined on the basis of the 7 year Swap Rate Quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest);

**“Reset Reference Banks”** means five leading swap dealers in the interbank market selected by the Calculation Agent after consultation with the Guarantor;

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

**“Senior Obligations of the Guarantor”** means all obligations of the Guarantor issued directly or indirectly by it (including, without limitation, any obligation of the Guarantor under any guarantee which ranks or is expressed to rank *pari passu* with the most senior present or future preferred stock or preference shares of the Guarantor and with any present or future guarantee entered into by the Guarantor in respect of any of the most senior present or future preferred stock or preference stock of any Subsidiary of the Guarantor) other than Parity Securities of the Guarantor and the ordinary share capital of the Guarantor;

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

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

**“Subsidiary”** means a subsidiary within the meaning of Section 1159 of the Companies Act 2006 and **“Subsidiaries”** shall be construed accordingly;

**“Substantial Repurchase Event”** shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer, the Guarantor or any of their respective Subsidiaries repurchases (and effects corresponding cancellations) or redeems Securities in respect of 80 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further securities issued pursuant to Condition 19);

**“Substituted Obligor”** has the meaning given in Condition 15;

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

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

**“Taxes”** has the meaning given in Condition 13;

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

- (a) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer or (provided there has been no default by the Issuer in respect of such Interest Payment and the Guarantor is treated for tax purposes as payer of that Interest Payment) the Guarantor would not be entitled to claim a deduction in respect of the expense recognised by the Issuer for accounting purposes as attributable to such Interest Payment in computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or

- (b) in respect of the Issuer's obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer or (provided there has been no default by the Issuer in respect of such Interest Payment and the Guarantor is treated for tax purposes as payer of that Interest Payment) the Guarantor would not to any material extent be entitled to have any loss attributable to, or resulting from, such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 14 March 2013 or any similar system or systems having like effect as may from time to time exist);

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

**"Tax Law Change"** means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty or convention to which the United Kingdom is a party, or any change in the application or interpretation of such laws or regulations or any such treaty or convention, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 14 March 2013;

**"Trust Deed"** has the meaning given in the preamble to these Conditions;

**"Trustee"** has the meaning given in the preamble to these Conditions;

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

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

## TERMS AND CONDITIONS OF THE STERLING SECURITIES

*The following, except for paragraphs in italics, are the terms and conditions of the Sterling Securities which will be endorsed on each Sterling Security in definitive form (if issued).*

The issue of the £1,000,000,000 Capital Securities due 2073 (the “**Securities**”, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 19 and forming a single series with the Securities) of NGG Finance plc (the “**Issuer**”) was authorised by a resolution of the Finance Committee of the board of directors of the Issuer passed on 23 January 2013. The obligations of the Issuer in respect of the Securities, the Coupons (as defined below) and the Trust Deed are guaranteed (such guarantee, the “**Guarantee**”) by National Grid plc (the “**Guarantor**”) as described below and in the Trust Deed. The Guarantee was authorised by a resolution of the Finance Committee of the board of directors of the Guarantor passed on 23 January 2013. The Securities are constituted by a trust deed (the “**Trust Deed**”) dated 18 March 2013 between the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Securities (the “**Holders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities, of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)), of the Talons appertaining to Securities in definitive form and of the Guarantee. Copies of (i) the Trust Deed and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 18 March 2013 relating to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

### 1. **Form, Denomination and Title**

#### (a) *Form and Denomination*

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

#### (b) *Title*

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

### 2. **Status of the Securities and the Coupons**

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference or priority among themselves and with any Parity

Securities of the Issuer. The rights and claims of the Holders in respect of the Securities and the Couponholders in respect of the Coupons, in each case against the Issuer are subordinated as described in Condition 3.

### 3. Subordination of the Securities and the Coupons

#### (a) General

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a “successor in business” (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

there shall be payable by the Issuer in respect of each Security and matured but unpaid Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon), such amounts, if any, as would have been payable to the Holder of such Security and Couponholder if, on the day prior to the commencement of the winding-up or such administration, as the case may be, and thereafter, such Holder and Couponholder were the holder of one of a class of preference shares in the capital of the Issuer (“**Notional Preference Shares of the Issuer**”) having an equal right to a return of assets in the winding-up or such administration, as the case may be, and so ranking *pari passu* with, the holders of that class or classes of preference shares (if any) which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of the ordinary share capital of the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary shares, but ranking junior to the claims of holders of all Senior Obligations of the Issuer (except as otherwise provided by mandatory provisions of law), on the assumption that the amounts that such Holder and Couponholder were entitled to receive in respect of each Notional Preference Share of the Issuer on a return of assets in such winding-up or such administration, as the case may be, were, in the case of a Security and its Holder, an amount equal to the principal amount of the relevant Security and, in the case of a Coupon and its Couponholder, any accrued and unpaid interest represented by such Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon). For the purpose of construing the provisions of the Guarantee and the Guarantor's payment obligations in respect thereof, the latter amounts shall be treated as due and payable by the Issuer on the date such order is made or such resolution is passed or notice is given, as the case may be and, consequently, a claim under the Guarantee in respect of such amount may be made on, or at any time after, such date.

*Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders under the Guarantee, the claims of holders of all Senior Obligations of the Issuer will first have to be satisfied in any winding-up or analogous proceedings of the Issuer before the Holders or Couponholders may expect to obtain from the Issuer any recovery in respect of their Securities or matured but unpaid Coupons (including any accrued but unpaid Deferred Interest in respect of such Coupons), as the case may be, and prior thereto any Holder or Couponholder will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.*

(b) *Set-off*

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

4. **Guarantee**

(a) *Guarantee*

The payment of the principal, premium and interest in respect of the Securities and the Coupons and all other monies payable by the Issuer under or pursuant to the Securities, the Coupons and/or the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Guarantee.

(b) *Status of the Guarantee*

The obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor and rank *pari passu* and without any preference or priority among themselves and with any Parity Securities of the Guarantor. The rights and claims of the Holders and the Couponholders in respect of the Guarantee against the Guarantor are subordinated as described in Condition 4(c).

(c) *Subordination of the Guarantee*

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Guarantor (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Guarantor of a “successor in business” (as defined in the Trust Deed) of the Guarantor, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or
- (ii) an administrator of the Guarantor being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

there shall be payable by the Guarantor under the Guarantee in respect of each Security and matured but unpaid Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon), such amounts, if any, as would have been payable to the Holder of such Security and Couponholder if, on the day prior to the commencement of the winding-up or such administration, as the case may be, and thereafter, such Holder and Couponholder were the holder of one of a class of preference shares in the capital of the Guarantor (“**Notional Preference Shares of the Guarantor**”) having an equal right to a return of assets in the winding-up or such administration, as the case may be, and so ranking *pari passu* with, the holders of that class or classes of preference shares (if any) which have a preferential right to a return of assets in the winding-up over, and so rank ahead of, the holders of the ordinary share capital of the Guarantor and any other obligations of the Guarantor, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with such ordinary shares, but ranking junior to the claims of holders of all Senior Obligations of the Guarantor (except as otherwise provided by mandatory provisions of law), on the assumption that the amounts that

such Holder and Couponholder were entitled to receive in respect of each Notional Preference Share of the Guarantor on a return of assets in such winding-up or such administration, as the case may be, were, in the case of a Security and its Holder, an amount equal to the principal amount of the relevant Security and, in the case of a Coupon and its Couponholder, any accrued and unpaid interest represented by such Coupon (including any accrued but unpaid Deferred Interest in respect of such Coupon).

*Accordingly, without prejudice to the rights of the Trustee, the Holders and the Couponholders against the Issuer, the claims of holders of all Senior Obligations of the Guarantor will first have to be satisfied in any winding-up or analogous proceedings of the Guarantor before the Holders or Couponholders may expect to obtain from the Guarantor any recovery pursuant to the Guarantee in respect of their Securities or matured but unpaid Coupons (including any accrued but unpaid Deferred Interest in respect of such Coupons), as the case may be, under the Guarantee and prior thereto any Holder or Couponholder will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.*

**(d) Set-off**

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

**5. Interest Payments**

**(a) Interest Payment Dates**

The Securities bear interest on their principal amount at the applicable Interest Rate from (and including) 18 March 2013 (the “**Issue Date**”) up to (but excluding) the Maturity Date in accordance with the provisions of this Condition 5.

Subject to Condition 6, interest shall be payable on the Securities annually in arrear on 18 June in each year (each an “**Interest Payment Date**”) and ending on the Maturity Date, as provided in this Condition 5, except that the first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014.

**(b) Interest Accrual**

The Securities (and any unpaid amounts thereon) will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 7 or the date of substitution or variation thereof pursuant to Condition 8, as the case may be, unless, upon due presentation, payment of all unpaid amounts in respect of the Securities is not made, in which event interest shall continue to accrue in respect of the principal amount of, and any other unpaid amounts on, the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Other than where it is necessary to compute an amount of interest in respect of any Security for a period which is more than a complete year, such interest shall be calculated on the basis of the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the relevant payment date divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next (or, as the case may be, the first) scheduled Interest Payment Date.



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

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

(c) ***Initial Interest Rate***

The Interest Rate in respect of each Interest Period ending on or before the First Reset Date is 5.625 per cent. per annum (the “**Initial Interest Rate**”). The Interest Payment in respect of each such Interest Period will amount to £56.25 per Calculation Amount. The first payment of interest, to be made on 18 June 2014, will be in respect of the period from (and including) the Issue Date to (but excluding) 18 June 2014 and will amount to £70.43 per £1,000 per Calculation Amount.

(d) ***Reset Interest Rates***

The Interest Rate in respect of each Interest Period falling in a Reset Period shall be the aggregate of the relevant Margin and the relevant 12 year Swap Rate for such Reset Period, all as determined by the Calculation Agent (each a “**Reset Interest Rate**”).

(e) ***Determination of Reset Interest Rates and Calculation of Interest Amounts***

The Calculation Agent will, as soon as practicable after 11.00 hours (London time) on each Reset Interest Determination Date, determine the Reset Interest Rate in respect of the relevant Reset Period and calculate the amount of interest payable in respect of a Calculation Amount on each Interest Payment Date falling in the period from (but excluding) such relevant Reset Date to (and including) the next Reset Date (the “**Interest Amount**”).

(f) ***Publication of Reset Interest Rates and Interest Amounts***

Unless the Securities are to be redeemed on the First Reset Date, the Issuer (failing which the Guarantor) shall cause notice of each Reset Interest Rate and the related Interest Amount per Calculation Amount to be given to the Trustee, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 18, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

(g) ***Calculation Agent and Reference Banks***

Unless the Securities are to be redeemed on the First Reset Date, the Issuer and the Guarantor will, no later than fourteen days before the first Reset Interest Determination Date, appoint and thereafter maintain a Calculation Agent.

The Issuer and the Guarantor may, with the prior written approval of the Trustee, from time to time replace the Calculation Agent with another independent financial institution. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or fails to determine a Reset Interest Rate or calculate the related Interest Amount or effect the required publication thereof (in

each case as required pursuant to these Conditions), the Issuer and the Guarantor shall forthwith appoint another independent financial institution approved in writing by the Trustee to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

*(h) Determinations of Calculation Agent Binding*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 5 by the Calculation Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Calculation Agent, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders, the Issuer or the Guarantor shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

**6. Optional Interest Deferral**

*(a) Deferral of Interest Payments*

The Issuer may elect to defer all or part of any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date (except on the Maturity Date) by giving notice (a “**Deferral Notice**”) of such election to the Holders in accordance with Condition 18, the Trustee and the Principal Paying Agent not more than 30 nor less than 7 Business Days prior to the relevant Interest Payment Date.

If any Interest Payment, or part thereof, is deferred pursuant to this Condition 6(a) then such Interest Payment (or part thereof) shall constitute a deferred Interest Payment and shall itself bear interest (such further interest together with the deferred Interest Payment, constituting, for as long as it has not been paid “**Deferred Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Deferred Interest Settlement Date (as defined below) or, as appropriate, such other date on which such deferred Interest Payment is paid in accordance with Condition 6(c), in each case such further interest being compounded on each Interest Payment Date.

Deferred Interest may be paid at the option of the Issuer in whole or in part at any time (the “**Deferred Interest Settlement Date**”) following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 18, the Trustee and the Principal Paying Agent not more than 30 nor less than 7 Business Days prior to the relevant Deferred Interest Settlement Date informing them of its election to so settle such Deferred Interest (or part thereof) and specifying the relevant Deferred Interest Settlement Date.

The deferral of an Interest Payment (or part thereof) in accordance with this Condition 6(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

*(b) Payment Restriction for the Issuer and the Guarantor*

As long as Deferred Interest remains outstanding neither the Issuer nor the Guarantor shall:

- (i) declare or pay any distribution or dividend (other than a dividend declared by the Issuer or the Guarantor, as the case may be, before the Issuer gives notice that such Interest Payment is to be deferred) or make any other payment on, and will procure that no distribution or dividend or other payment is made by any Subsidiary of the Issuer and/or the Guarantor, as

the case may be, on, the ordinary share capital of the Issuer or the Guarantor or any Parity Securities of the Issuer or any Parity Securities of the Guarantor (which, for the avoidance of doubt, does not preclude the payment or making of a dividend or distribution by any Subsidiary of the Issuer and/or the Guarantor on any of its share capital or other securities which do not benefit from a guarantee or support agreement of the type referred to in the definition of either Parity Securities of the Issuer or Parity Securities of the Guarantor) except where such distribution or dividend or other payment was required to be made in respect of any stock option plan of the Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor; or

- (ii) redeem, purchase, cancel, reduce or otherwise acquire, and will procure that no redemption, purchase, cancellation, reduction or other acquisition is made by any Subsidiary of the Issuer and/or the Guarantor of, any ordinary shares of the Issuer, any ordinary shares of the Guarantor, any Parity Securities of the Issuer or any Parity Securities of the Guarantor, except where such redemption, purchase, cancellation, reduction or other acquisition was required to be made in respect of any stock option plan or employee share scheme of the Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor,

until the date on which payment is made in full of all outstanding Deferred Interest.

The restriction in part (i) of the foregoing paragraph shall not apply to any *pro rata* payment of deferred interest on a Parity Security of the Issuer and/or any Parity Security of the Guarantor which is made simultaneously with a *pro rata* payment of any Deferred Interest provided that such *pro rata* payment on a Parity Security of the Issuer and/or a Parity Security of the Guarantor is not proportionately more than the *pro rata* settlement of any such Deferred Interest.

**(c) *Deferred Interest***

Notwithstanding the provisions of Condition 6(a), the Issuer shall pay any accrued but unpaid Deferred Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the date on which the Securities are redeemed or repaid in accordance with Condition 3, Condition 4, any paragraph of Condition 7 or Condition 12; and
- (ii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities in accordance with Condition 8.

**7. *Redemption***

**(a) *Final Redemption Date***

Unless previously repaid, redeemed or purchased and cancelled as provided in these Conditions, the Securities will be redeemed on the Maturity Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the Maturity Date (including any accrued but unpaid Deferred Interest).

**(b) *Issuer's Call Option***

The Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on any Optional Redemption Date at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest).

(c) ***Redemption for Taxation Reasons***

If, immediately prior to the giving of the notice referred to below, a Tax Deductibility Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at 100 per cent. of their principal amount in the case of a Withholding Tax Event, or, in the case of a Tax Deductibility Event, (i) 101 per cent. of their principal amount where such redemption occurs before the First Reset Date, or (ii) 100 per cent. of their principal amount where such redemption occurs on or after the First Reset Date, together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

(d) ***Redemption for Rating Reasons***

If, immediately prior to the giving of the notice referred to below, a Rating Capital Event has occurred and is continuing, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at (i) 101 per cent. of their principal amount, where such redemption occurs before the First Reset Date, or (ii) 100 per cent. of their principal amount, where such redemption occurs on or after the First Reset Date, together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) ***Redemption Following Substantial Repurchase***

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, by giving not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable) and subject to Condition 9, redeem all, but not some only, of the Securities at any time at their principal amount, together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date (including any accrued but unpaid Deferred Interest). Upon the expiry of such notice, the Issuer shall redeem the Securities.

**8. Substitution or Variation**

If a Rating Capital Event, a Tax Deductibility Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 9 (without any requirement for the consent or approval of the Holders or Couponholders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 8 have been complied with, and having given not less than 30 nor more than 45 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 18, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 8 and subject to the receipt by it of the certificate of the directors of the Guarantor referred to in Condition 9 below) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 8.

In connection therewith, any accrued but unpaid Deferred Interest will be satisfied in full in accordance with the provisions of Condition 6(c).

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as the case may be, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities, or the participation in or assistance with such substitution or variation, would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 7.

In connection with any substitution or variation in accordance with this Condition 8, the Issuer and the Guarantor shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

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

## **9. Preconditions to Special Event Redemption, Substitution and Variation**

Prior to the publication of any notice of redemption pursuant to Condition 7 (other than redemption pursuant to Condition 7(b)) or any notice of substitution or variation pursuant to Condition 8, the Guarantor shall deliver to the Trustee a certificate signed by two directors of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied, and where the relevant Special Event requires measures reasonably available to the Issuer or the Guarantor, as the case may be, to be taken, the relevant Special Event cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such measures. In relation to a substitution or variation pursuant to Condition 8, such certificate shall also include further certifications that the terms of the Qualifying Securities are not materially less favourable to Holders than the terms of the Securities, that such determination was reached by the Guarantor in consultation with an independent investment bank or counsel and that the criteria specified in paragraphs (a) to (h) of the definition of Qualifying Securities will be satisfied by the Qualifying Securities upon issue. The Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs, in which event it shall be conclusive and binding on the Holders and the Couponholders.

Any redemption of the Securities in accordance with Condition 7 or any substitution or variation of the Securities in accordance with Condition 8 shall be conditional on all accrued but unpaid Deferred Interest being paid in full in accordance with the provisions of Condition 6 on or prior to the date of such redemption, substitution or, as the case may be, variation, together with any accrued and unpaid interest up to (but excluding) such redemption, substitution or, as the case may be, variation date.

The Trustee is under no obligation to ascertain whether any Special Event or any event which could lead to the occurrence of, or could constitute, any such Special 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 that no such Special Event or such other event has occurred.

## **10. Purchases and Cancellation**

### **(a) Purchases**

Each of the Issuer, the Guarantor and any of their respective Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price.

In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto.

**(b) *Cancellation***

All Securities redeemed or substituted by the Issuer pursuant to Condition 7 or 8, as the case may be, (together with all unmatured Coupons and unexchanged Talons relating thereto) will forthwith be cancelled. All Securities purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may, at the option of the Issuer or the Guarantor, as the case may be, be held, reissued, resold or surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons attached to them) to a Paying Agent. Securities held by the Issuer, the Guarantor and/or any of their respective Subsidiaries shall not entitle the holder to vote at any meeting of Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Holders or for any other purpose specified in Condition 15.

**11. *Payments***

**(a) *Method of Payment***

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on a Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Securities. Such payments will be made by transfer to a sterling account maintained by the payee with a bank in London.
- (ii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iii) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 14).

**(b) *Payments Subject to Fiscal Laws***

Without prejudice to the terms of Condition 13, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

**(c) *Days for Payments***

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

## **12. Events of Default**

### **(a) *Proceedings***

If a default is made by the Issuer or the Guarantor for a period of 30 days or more in relation to the payment of principal or in respect of any interest in respect of the Securities which is due and payable, then the Issuer and/or the Guarantor, as the case may be, shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its discretion may (subject to Condition 12(c)), and if so requested by the holders of at least one-quarter in principal amount of the Securities then outstanding or if so directed by an Extraordinary Resolution shall, institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in the winding-up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation or administration of the Issuer and/or the Guarantor for such payment and/or give notice to the Guarantor that the Securities are, and they shall immediately thereby become, due and repayable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date (including any accrued but unpaid Deferred Interest).

### **(b) *Enforcement***

The Trustee may at its discretion (subject to Condition 12(c)) and without further notice institute such proceedings against the Issuer and/or the Guarantor, as the case may be, as it may think fit to enforce any term or condition binding on the Issuer and/or the Guarantor, as the case may be, under the Trust Deed, the Securities or the Coupons but in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

### **(c) *Entitlement of Trustee***

The Trustee shall not be bound to take any of the actions referred to in Condition 12(a) or 12(b) above against the Issuer and/or the Guarantor to enforce the terms of the Trust Deed, the Securities or the Coupons or any other action or step unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

### **(d) *Right of Holders***

No Holder or Couponholder shall be entitled to proceed directly against the Issuer and/or the Guarantor or to institute proceedings for the winding-up of the Issuer and/or the Guarantor and/or prove in the winding-up or administration of the Issuer and/or the Guarantor and/or claim in the liquidation or administration of the Issuer and/or the Guarantor unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer and/or the Guarantor as those which the Trustee is entitled to exercise as set out in this Condition 12.

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

No remedy against the Issuer and/or the Guarantor, other than as referred to in this Condition 12, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Securities, the Coupons or under the Trust Deed (including the Guarantee) or in respect of any breach by the Issuer and/or the Guarantor of any of its/their other obligations under or in respect of the Securities, the Coupons or the Trust Deed.

### 13. Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Securities and the Coupons or by or on behalf of the Guarantor in respect of the Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes or duties of whatever nature (“**Taxes**”) imposed or levied by or on behalf of the United Kingdom or any political subdivision of the United Kingdom or any authority thereof or therein having power to tax, unless such withholding or deduction is compelled by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (“**Additional Amounts**”) as shall result in receipt by the Holders and the Couponholders of such amounts as would have been receivable in respect of the Securities or Coupons had no such withholding or deduction been made, except that no such Additional Amounts shall be payable in respect of any Security or Coupon:

- (a) presented for payment by or on behalf of, a person who is liable to such taxes or duties in respect of such Security or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Security or Coupon; or
- (b) presented for payment by or on behalf of a person who would not be liable or subject to such deduction or withholding by making a declaration of non-residence or other claim for exemption to a tax authority; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder would have been entitled to such additional amounts on presenting the same for payment on such 30th day; or
- (d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform with, such Directive; or
- (e) presented for payment by or on behalf of a Holder or Couponholder who would have been able to avoid such withholding or deduction (i) by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union; or (ii) by satisfying any statutory or procedural requirements (including, without limitation, the provision of information).

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

### 14. Prescription

Claims against the Issuer and/or the Guarantor in respect of Securities and Coupons (which for this purpose shall not include Talons) or under the Guarantee will become void unless presented for payment or made, as the case may be, within a period of 10 years in the case of Securities and the Guarantee (in respect of claims relating to principal and premium) and five years in the case of Coupons and the Guarantee (in respect of claims relating to interest) from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 14 or Condition 11(a)(iii).



## **15. Meetings of Holders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Holders to consider any matter affecting their interests or those of Couponholders, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Holders holding not less than 10 per cent. in principal amount of the Securities for the time being outstanding.

The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in principal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders whatever the principal amount of the Securities so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions (including, inter alia, the provisions regarding subordination referred to in Condition 3 and/or Condition 4, the terms concerning currency and due dates for payment of principal, any applicable premium or Interest Payments in respect of the Securities and reducing or cancelling the principal amount of any Securities, any applicable premium or the Interest Rate or modifying or cancelling the Guarantee) and certain other provisions of the Trust Deed, the quorum shall be two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Securities for the time being outstanding.

The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 8 in connection with the substitution or variation of the terms of the Securities so that they remain or become Qualifying Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 8.

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

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 95 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer and/or the Guarantor of, any of these Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders and Couponholders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer and/or the Guarantor in circumstances which are more extensive than those set out in Condition 12). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders in accordance with Condition 18, as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders and Couponholders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a

subordinated basis equivalent to that referred to in Conditions 2, 3 and 4 of any other company (any such entity, a “**Substituted Obligor**”) in place of the Issuer or the Guarantor, as the case may be, (or any previous Substituted Obligor under this Condition) as, in the case of the Issuer, a new principal debtor under the Trust Deed, the Securities, the Coupons and the Talons or, in the case of the Guarantor, a new guarantor under the Trust Deed on terms *mutatis mutandis* as those of the Guarantee.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 15), the Trustee shall have regard to the general interests of the Holders and Couponholders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Guarantor, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders, except to the extent already provided in Condition 13 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 18 as soon as practicable thereafter.

#### **16. Replacement of the Securities, Coupons and Talons**

If any Security, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Principal Paying Agent as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Holders in accordance with Condition 18, on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Security, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Securities, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Securities, Coupons or Talons must be surrendered before any replacement Securities, Coupons or Talons will be issued.

#### **17. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification or prefunding of, and/or provision of security for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor or any of their respective subsidiary undertakings, parent undertakings, joint ventures or associated undertakings without accounting for any profit resulting from these transactions and to act as trustee for the holders of any other securities issued by the Issuer, the Guarantor or any of their respective subsidiary undertakings, parent undertakings, joint ventures or associated undertakings. The Trustee may rely without liability to Holders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Guarantor, the Trustee and the Holders.

## **18. Notices**

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

## **19. Further Issues**

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

## **20. Paying Agents**

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

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain a Paying Agent having its specified office in a major European city, which shall be London so long as the Securities are admitted to the Official List and admitted to trading on the London Stock Exchange's Regulated Market; and
- (c) at all times maintain a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform with, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 18.

If the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer and the Guarantor shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place.

## **21. Governing Law**

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

**22. Contracts (Rights of Third Parties) Act 1999**

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

**23. Definitions**

In these Conditions:

**“12 year Swap Rate”** means (i) the annualised mid-swap rate with a term of 12 years as displayed on Reuters screen “ISDAFIX4” as at 11:00 a.m. (London time) on the relevant Reset Interest Determination Date or, (ii) if the 12 year Swap Rate does not appear on such screen page at such time on the relevant Reset Interest Determination Date, the 12 year Swap Rate will be the annualised Reset Reference Bank Rate on such Reset Interest Determination Date;

The **“12 year Swap Rate Quotations”** means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a Actual/365 day count basis) of a fixed-for-floating sterling interest rate swap which:

- (a) has a term of 12 years commencing on the relevant Reset Date;
- (b) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (c) has a floating leg based on the 6-month LIBOR rate (calculated on an Actual/365 day count basis);

**“2025 Step-Up Date”** means 18 June 2025;

**“2045 Step-Up Date”** means 18 June 2045;

**“Additional Amounts”** has the meaning given in Condition 13;

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

**“Calculation Agent”** means an independent financial institution appointed by the Issuer and the Guarantor;

**“Calculation Amount”** has the meaning given to it in Condition 5(b);

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

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

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

**“Deferred Interest”** has the meaning given in Condition 6(a);

**“Deferred Interest Settlement Date”** has the meaning given in Condition 6(a);

**“Deferral Notice”** has the meaning given in Condition 6(a);

**“First Reset Date”** means 18 June 2025;

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

“**Guarantor**” means National Grid plc;

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

“**Initial Interest Rate**” has the meaning given in Condition 5(c);

“**Interest Amount**” has the meaning given in Condition 5(e);

“**Interest Payment**” means, in respect the payment of interest on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the Coupon for the relevant Interest Period in accordance with Condition 5;

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

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

“**Interest Rate**” means the Initial Interest Rate or the relevant Reset Interest Rate, as the case may be;

“**Issue Date**” has the meaning given in Condition 5(a);

“**Issuer**” means NGG Finance plc;

“**Margin**” means (i) 3.48<sup>4</sup> per cent. per annum from (and including) the 2025 Step-up Date to (but excluding) the 2045 Step-up Date and (iii) 4.23<sup>5</sup> per cent. per annum from (and including) the 2045 Step-up Date to (but excluding) the Maturity Date;

“**Maturity Date**” means 18 June 2073;

“**Notional Preference Shares of the Guarantor**” has the meaning given in Condition 4;

“**Notional Preference Shares of the Issuer**” has the meaning given in Condition 3;

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

“**Optional Redemption Date**” means the First Reset Date and each Interest Payment Date thereafter;

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

“**Parity Securities of the Issuer**” means (if any) the most junior class of preference share capital in the Issuer and any other obligations of (i) the Issuer, issued directly or indirectly by it, which rank, or

---

<sup>4</sup> Equivalent to the initial credit spread of the Securities plus a 25 basis points step-up.

<sup>5</sup> Equivalent to the initial credit spread of the Securities plus a 100 basis points step-up.

are expressed to rank, *pari passu* with the Securities or such preference shares or (ii) any Subsidiary of the Issuer having the benefit of a guarantee or support agreement from the Issuer which ranks or is expressed to rank *pari passu* with the Securities or such preference shares;

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

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

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

“**Qualifying Securities**” means securities that contain terms not materially less favourable to Holders than the terms of the Securities (as reasonably determined by the Guarantor (in consultation with an independent investment bank or counsel of international standing)) and provided that a certification to such effect (and confirming that the conditions set out in (a) to (h) below have been satisfied) of two directors of the Guarantor shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), provided that:

- (a) they shall be issued by the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of the Guarantor; and
- (b) they (and/or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* on a winding-up or administration (in circumstances where the administrator has given notice of its intention to declare and distribute a dividend) of the Issuer with the Securities and the Guarantor with the Guarantee; and
- (c) they shall contain terms which provide for the same Interest Rate from time to time applying to the Securities and preserve the same Interest Payment Dates; and
- (d) they shall preserve the obligations (including the obligations arising from the exercise of any right) of the Issuer and the Guarantor as to redemption of the Securities, including (without limitation) as to timing of, and amounts payable upon, such redemption; and
- (e) they shall preserve any existing rights under these Conditions to any accrued interest, any Deferred Interest and any other amounts payable under the Securities which, in each case, has accrued to Holders and not been paid; and
- (f) they shall not contain terms providing for loss absorption through principal write-down or conversion to ordinary shares; and
- (g) they shall otherwise contain substantially identical terms (as reasonably determined by the Guarantor) to the Securities, save where any modifications to such terms are required to be made to avoid the occurrence or effect of a Rating Capital Event, a Tax Deductibility Event or, as the case may be, a Withholding Tax Event; and
- (h) they shall be (i) listed on the Official List and admitted to trading on the London Stock Exchange plc’s Regulated Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Guarantor and approved by the Trustee.

“**Rating Agency**” means Fitch Ratings Limited or any of its subsidiaries and their successors or Moody’s Investors Service, Ltd. or any of its subsidiaries and their successors or Standard & Poor’s Credit Market Services Europe Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Guarantor from time

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

a “**Rating Capital Event**” shall be deemed to occur if the Issuer and/or Guarantor has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency that, as a result of a change, or proposed change, in its hybrid capital methodology or the interpretation thereof which becomes, or would become, effective on or after 14 March 2013, the Securities will no longer be eligible for the same, or higher amount of, “equity credit” (or such other nomenclature as the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date or, if later, at the time when the relevant Rating Agency first publishes its confirmation of the “equity credit” attributed by it to the Securities;

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

“**Relevant Date**” means:

- (a) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor, as the case may be, in a winding-up or administration of the Issuer or the Guarantor, as the case may be, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 18; and
- (b) in respect of any sum (i) to be paid by or on behalf of the Issuer or the Guarantor, as the case may be, in a winding-up of the Issuer or the Guarantor, as the case may be, or (ii) if following the appointment of an administrator of the Issuer or the Guarantor, as the case may be, the administrator gives notice of an intention to declare and distribute a dividend, to be paid by the administrator by way of such dividend, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Reset Date**” means the First Reset Date and each twelfth anniversary thereof up to and including 18 June 2061;

“**Reset Interest Determination Date**” means the relevant Reset Date;

“**Reset Interest Rate**” has the meaning given in Condition 5(d);

“**Reset Period**” means each period beginning on (and including) a Reset Date and ending on (but excluding) the next succeeding Reset Date thereafter and “**relevant Reset Period**” shall be construed accordingly;

“**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the 12 year Swap Rate Quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 11:00 a.m. (London time) on the relevant Reset Interest Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest);

**“Reset Reference Banks”** means five leading swap dealers in the interbank market selected by the Calculation Agent after consultation with the Guarantor;

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

**“Senior Obligations of the Guarantor”** means all obligations of the Guarantor issued directly or indirectly by it (including, without limitation, any obligation of the Guarantor under any guarantee which ranks or is expressed to rank *pari passu* with the most senior present or future preferred stock or preference shares of the Guarantor and with any present or future guarantee entered into by the Guarantor in respect of any of the most senior present or future preferred stock or preference stock of any Subsidiary of the Guarantor) other than Parity Securities of the Guarantor and the ordinary share capital of the Guarantor;

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

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

**“sterling”** or **“£”** means the lawful currency of the United Kingdom;

**“Subsidiary”** means a subsidiary within the meaning of Section 1159 of the Companies Act 2006 and **“Subsidiaries”** shall be construed accordingly;

**“Substantial Repurchase Event”** shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer, the Guarantor or any of their respective Subsidiaries repurchases (and effects corresponding cancellations) or redeems Securities in respect of 80 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further securities issued pursuant to Condition 19);

**“Substituted Obligor”** has the meaning given in Condition 15;

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

**“Taxes”** has the meaning given in Condition 13;

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

- (a) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer or (provided there has been no default by the Issuer in respect of such Interest Payment and the Guarantor is treated for tax purposes as payer of that Interest Payment) the Guarantor would not be entitled to claim a deduction in respect of the expense recognised by the Issuer for accounting purposes as attributable to such Interest Payment in computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (b) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer or (provided there has been no default by the Issuer in respect of such Interest Payment and the Guarantor is treated for tax purposes as payer of that Interest Payment) the Guarantor would not to any material extent be entitled to have any loss attributable to, or resulting from, such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 14 March 2013 or any similar system or systems having like effect as may from time to time exist);



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

**“Tax Law Change”** means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty or convention to which the United Kingdom is a party, or any change in the application or interpretation of such laws or regulations or any such treaty or convention, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 14 March 2013;

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

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

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

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

## **SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM**

### **Initial Issue of Securities**

Upon the initial deposit of a Temporary Global Security with a common depositary for Euroclear and Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg, as the case may be, will credit each subscriber with a principal amount of Securities equal to the principal amount of those Securities for which it has subscribed and paid.

The records of such clearing system shall be conclusive evidence of the principal amount of Securities represented by the Temporary Global Security 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.

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Security represented by a Global Security must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer or the Guarantor to the bearer of such Global Security and in relation to all other rights arising under the Global Securities, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Securities for so long as the Securities are represented by such Global Security and such obligations of the Issuer and the Guarantor will be discharged by payment to the bearer of such Global Security in respect of each amount so paid.

The Trustee may call for any certificate or other document to be issued by Euroclear or Clearstream, Luxembourg as to the principal amount of Securities represented by a Global Security standing to the account of any person. 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 Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal amount in any other clearing system is clearly identified together with the amount of such holding. The Trustee shall not 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 Euroclear or Clearstream, Luxembourg and subsequently found to be forged or not authentic.

### **Exchange**

#### **1. Temporary Global Securities**

Each Temporary Global Security will be exchangeable, free of charge to the holder, on or after its Exchange Date, in whole or in part upon certification as to non-U.S. beneficial ownership substantially in the form set out in the relevant Paying Agency Agreement for interests in a Permanent Global Security.

#### **2. Permanent Global Securities**

Each Permanent Global Security will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not in part for Definitive Securities if the Permanent Global Security is held on behalf of Euroclear or Clearstream, Luxembourg 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.

In the event that a Global Security is exchanged for Definitive Securities, such Definitive Securities shall be issued in the denomination(s) specified in the relevant Conditions only. A Holder who holds a principal amount of less than the minimum so specified denomination will not receive a Definitive Security in respect of such holding and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more such specified denominations.

### **3. Delivery of Securities**

On or after any due date for exchange the holder of a Global Security may surrender such Global Security or, in the case of a partial exchange, present it for endorsement to or to the order of the Principal Paying Agent. In exchange for any Global Security, or the part of that Global Security to be exchanged, the Issuer will (a) in the case of a Temporary Global Security exchangeable for a Permanent Global Security, deliver, or procure the delivery of, a Permanent Global Security in an aggregate principal amount equal to that of the whole or that part of a Temporary Global Security that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Security to reflect such exchange or (b) in the case of a Global Security exchangeable for Definitive Securities, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Securities. In this Prospectus, “**Definitive Securities**” means, in relation to any Global Security, the Definitive Securities for which such Global Security may be exchanged (if appropriate, having attached to them all Coupons that have not already been paid on the Global Security and a Talon). Definitive Securities 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 relevant Trust Deed. On exchange in full of each Permanent Global Security, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Securities.

### **4. Exchange Date**

“**Exchange Date**” means, in relation to a Temporary Global Security, the day falling after the expiry of 40 days after its issue date which is expected to be 28 April 2013 and, in relation to a Permanent Global Security, a day falling not less than 60 days, after that day on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the city in which the relevant clearing system is located.

## **Amendment to Conditions**

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

### **1. Payments**

No payment falling due after the Exchange Date will be made on any Temporary Global Security unless exchange for an interest in the relevant Permanent Global Security is improperly withheld or refused. Payments on any Temporary Global Security will only be made against presentation of certification as to non-U.S. beneficial ownership substantially in the form set out in the relevant Paying Agency Agreement. All payments in respect of Securities represented by a Global Security will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of that Global Security to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed on each Global Security, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Securities. 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 Security, the relevant place of presentation shall be disregarded for the Securities in the relevant Condition 11(c) (Days for Payments).

The records of the relevant clearing systems which reflect the amount of the Holders' interests in the Securities shall be conclusive evidence of the principal amount of Securities represented by the Global Securities.

## **2. Prescription**

Claims against the Issuer and/or the Guarantor in respect of Securities which are represented by a Permanent Global Security will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the relevant Condition 23).

## **3. Meetings**

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

## **4. Cancellation**

Cancellation of any Security represented by a Permanent Global Security which is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant Permanent Global Security.

## **5. Purchase**

Securities represented by a Permanent Global Security may only be purchased by the Issuer, the Guarantor or any of their respective Subsidiaries if they are purchased together with the right to receive all future payments of interest on those Securities.

## **6. Issuer's Option**

Any option of the Issuer provided for in the Conditions while Securities of a Tranche are represented by a Permanent Global Security shall be exercised by the Issuer giving notice to the Holders within the time limits set out in and containing the information required by the relevant Conditions.

## **7. Trustee's Powers**

In considering the interests of Holders while any Global Security is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Security and may consider such interests as if such accountholders were the holders of the Securities represented by such Global Security.

## **8. Notices**

So long as any Securities are represented by a Global Security and such Global Security is held on behalf of a clearing system, notices to the holders of Securities of that Tranche 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 relevant Conditions or by delivery of the relevant notice to the holder of the Global Security. Any such notice shall be deemed to have been given to the Holders on the day on which such notice is delivered to the relevant clearing system or to the holder of the Global Security.

## DESCRIPTION OF THE ISSUER

### Incorporation and Business

NGG Finance plc, the Issuer, is a finance vehicle and a member of the National Grid Group. It was incorporated on 21 May 2001 in England and Wales as a company with limited liability under registered number 4220381 and is a wholly-owned subsidiary of the Guarantor. The Issuer re-registered as a public limited company under the Companies Act 1985 on 27 July 2001.

The authorised and issued share capital of the Issuer comprises 2,000,000 ordinary shares of £1 each of which 1,924,967 are held by the Guarantor and 33 are held by National Grid Nominees Limited on trust for the Guarantor.

The address of the Issuer's registered office is c/o National Grid plc, 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is +44 20 7004 3000.

### Subsidiaries

As at the date of this Prospectus the Issuer has one subsidiary, which is dormant, called NGG Finance (No 1) Limited.

### Directors

The Directors of the Issuer and their principal activities outside of the Issuer are as follows:

<b>Name</b>	<b>Title</b>	<b>Principal activities outside NGG Finance plc</b>
Andrew Agg	Director	Director of National Grid Holdings One plc ("NGH1") and certain other wholly owned subsidiaries of National Grid plc.
David Bonar	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.
Malcolm Cooper	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc and a director of CLS Holdings plc, Chief Financial Officer and Treasurer of KeySpan Corporation and Treasurer of National Grid USA.
Mark Flawn	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.
Emmanuel Fraser	Director	Director of NGH1 and certain other wholly owned subsidiaries of National Grid plc.

The business address of each of the Directors of the Issuer is 1-3 Strand, London, WC2N 5EH.

There are no potential conflicts of interest between the duties to the Issuer of each of the Directors listed above and their private interests or other duties.

## DESCRIPTION OF THE GUARANTOR

### Overview

National Grid plc (“**National Grid**”) is the name of the holding company of the group of companies (the “**National Grid Group**”) which was the product of a recommended merger between National Grid Group plc (“**NGG**”) and Lattice Group plc (“**Lattice**”). This merger was implemented by way of a sanctioned scheme of arrangement under the Companies Act 1985 between Lattice and its shareholders and was completed on 21 October 2002. Following the closing of the merger, NGG was renamed National Grid Transco plc and on 26 July 2005 it changed its name to National Grid plc.

National Grid was incorporated in England and Wales on 11 July 2000 as a public company limited by shares under the Companies Act 1985. The address of National Grid’s registered office is 1-3 Strand, London, WC2N 5EH and the telephone number of the registered office is +44 20 7004 3000.

National Grid is, directly or indirectly, the ultimate holding company of all the companies in the National Grid Group and its assets are substantially comprised of shares in such companies. National Grid does not conduct any other business and is accordingly dependent on the other members of the National Grid Group and revenues received from them.

National Grid’s senior unsecured debt obligations are rated BBB+ by Standard & Poor’s, BBB+ by Fitch and Baa1 by Moody’s and its short term debt obligations are rated A2 by Standard & Poor’s, F2 by Fitch and P2 by Moody’s. Standard & Poor’s, Fitch and Moody’s are all established in the European Union and registered under the CRA Regulation.

### Introduction

National Grid’s principal operations are ownership and operation of regulated electricity and gas infrastructure networks in the U.K. and the U.S. serving around 19 million customers directly and many more indirectly. National Grid also has interests in related markets, including electricity interconnectors, metering services, liquefied natural gas (“**LNG**”) storage and importation facilities and property in the U.K., LNG storage and transportation and non-regulated gas transmission pipelines in the U.S. and a generator of electricity on Long Island New York.

### Business overview

#### *Principal activities and markets*

National Grid’s principal activities are:

- Gas and electricity transmission;
- Gas distribution;
- Electricity distribution and generation; and
- Non-regulated businesses.

The performance of these activities is reported by National Grid by segments reflecting the management responsibilities and economic characteristics of each activity as follows:

- Transmission – U.K.;

- Gas Distribution – U.K.; and
- U.S.

The National Grid Group's remaining non-regulated businesses are not treated as a segment but are instead classified and reported as other activities. Further information about each of these segments and other operations is set out below.

National Grid's principal subsidiaries are: National Grid Electricity Transmission plc, which owns its U.K. electricity transmission business; National Grid Gas plc, which owns its U.K. gas transmission and U.K. gas distribution businesses; and National Grid USA ("NGUSA"), the holding company for its U.S. electricity transmission, electricity distribution and generation and gas distribution businesses.

NGUSA's more significant subsidiary companies include KeySpan Corporation, which directly or indirectly owns public utilities consisting of Boston Gas Company, Colonial Gas Company, The Brooklyn Union Gas Company, KeySpan Gas East Corp. and Essex Gas Company. Other principal subsidiaries of NGUSA are Niagara Mohawk Power Corporation, Massachusetts Electric Company, The Narragansett Electric Company, New England Power Company and Nantucket Electric Company.

National Grid's objects and purposes are not restricted by its Articles of Association.

*Transmission – U.K.*

#### Electricity

National Grid, through National Grid Electricity Transmission plc ("NGET"), owns the electricity transmission system in England and Wales. National Grid is also the National Electricity Transmission System Operator ("NETSO") responsible for managing the operation of the National Electricity Transmission System ("NETS") (i.e. both the England and Wales transmission system which it owns and also the two high-voltage electricity transmission networks in Scotland and offshore transmission systems which it does not own).

Day-to-day operation of the NETS involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency.

#### Gas

National Grid, through National Grid Gas plc ("**National Grid Gas**") also owns the gas national transmission system in Great Britain. This connects to eight distribution networks and to third party independent systems for onward transportation of gas to end consumers. National Grid operates the gas national transmission system, which includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.

#### Other transmission assets

National Grid also owns and operates the U.K. assets and a portion of the subsea cables that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator. National Grid also owns and operates a liquefied natural gas storage facility at Avonmouth in Great Britain. The revenues from the interconnector and part of the revenues from LNG storage are not regulated, but realised from tenders or capacity auctions.



## *Gas Distribution – U.K.*

National Grid, through National Grid Gas owns and operates a gas distribution business comprising four of Great Britain's eight regional gas distribution networks. This consists of approximately 132,000 kilometres of distribution pipeline. National Grid transports gas on behalf of 26 active gas shippers from the gas national transmission network through its four regional gas distribution networks to around 10.8 million consumers.

National Grid also manages the national emergency number for all of the distribution networks and other gas transporters in Great Britain.

## *United States*

### Transmission

In the United States, National Grid owns and operates an electricity transmission network spanning upstate New York, Massachusetts, Rhode Island and Vermont. Its U.S. electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV. National Grid is the largest electricity transmission service provider in New England and New York by reference to the length of these high-voltage transmission lines. In addition, it owns and operates a 224 kilometre direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

National Grid's electricity transmission network is directly interconnected with other utility systems in New York, Massachusetts, Vermont, Pennsylvania, Rhode Island, Connecticut, New Hampshire and the Canadian provinces of Ontario and Quebec and indirectly interconnected with most of the electric utility systems through the Eastern Interconnection power grid of the United States and Canada.

### Gas Distribution

National Grid's U.S. gas distribution segment comprises gas distribution networks providing services to approximately 3.5 million consumers across the north eastern United States, located in service territories in upstate New York, New York City, Long Island, Massachusetts and Rhode Island. Its network of approximately 58,000 kilometres of gas pipelines serves an area of approximately 26,400 square kilometres.

Gas is delivered by the interstate pipeline companies to National Grid's and other companies' local distribution companies for distribution to their customers. As is the case with the distribution networks in the U.K., each local distribution company has a geographically defined service territory and is the only local distribution company within that territory. Local distribution companies are regulated by the state utility commission of the state in which their service territory is located.

The gas transported by National Grid's local distribution companies includes gas purchased by National Grid for its own end user customers as well as third party gas that it delivers to its transportation customers. This contrasts with the U.K., where National Grid does not purchase or sell the gas it transports.

National Grid also manages gas assets such as transportation and storage capacity to ensure supply adequacy for delivery to customers. It maintains a diversified and flexible portfolio of gas supply and storage assets, and is able to deliver additional benefits to customers and shareholders by optimising the use of these assets. During cold weather, National Grid supplements gas from the interstate pipeline system with LNG and propane facilities in a number of locations.

### Electricity Distribution and Generation

National Grid's electricity distribution networks in upstate New York through Niagara Mohawk Power Corporation, in Massachusetts through Massachusetts Electric Company and Nantucket Electric Company

and in Rhode Island through The Narragansett Electric Company, with customers that include domestic homes and small and large commercial and industrial enterprises. Through its electricity distribution networks, National Grid serves approximately 3.5 million electricity consumers in New England and upstate New York.

Until 31 December 2013, National Grid is responsible for maintaining and operating the electricity transmission and distribution system on Long Island, owned by the Long Island Power Authority (“**LIPA**”), providing energy to homes, small businesses and large commercial and industrial enterprises, LIPA’s transmission line facilities deliver power to substations and on to transmission and distribution facilities which delivers electricity to approximately 1.1 million consumers. In December 2011, LIPA announced that, after a lengthy competitive bid process related to the management services agreement, National Grid had not been selected to continue to manage and operate Long Island’s electricity system beyond the term of the current management services agreement, which expires on 31 December 2013.

National Grid, through its U.S. subsidiary, National Grid Generation LLC (“**Genco**”) owns 57 electricity generation units on Long Island that together provide 4.1 GW of power to LIPA under a power sales contract. This contract expires in 2013 and new contract negotiations are underway. National Grid’s plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units ranging from 2 MW to 385MW.

### **Non-regulated businesses and other activities**

National Grid also has an interest in certain non-regulated and other business activities. In the U.K., National Grid Metering Limited provides installation and maintenance to gas and electricity suppliers in the regulated metering market. This business provides services for an asset base of around 15 million domestic, industrial and commercial meters. National Grid Grain LNG Limited is an LNG import terminal, with revenues driven by the provision of importation capacity to shippers under long-term take-or pay contracts (typically 20 years from commissioning). National Grid Property is responsible for the management of all of National Grid’s major occupied property in the United Kingdom and the management, clean-up and disposal of surplus sites (largely comprising former gas works).

BritNed Development Limited is a joint venture between National Grid and TenneT, the Dutch transmission system operator, which operates a 260 kilometre 1,000 MW subsea electricity link between the Netherlands and the U.K.

In addition to these non-regulated activities, National Grid is a majority shareholder in Xoserve Limited which delivers transportation transactional services on behalf of the major gas network transportation companies in Great Britain, including National Grid.

In the U.S., National Grid’s non-regulated businesses include LNG storage, LNG road transportation, unregulated transmission pipelines, including shares in the Millennium and Iroquois pipelines.

### **Regulatory environment**

National Grid’s securities are listed on the London Stock Exchange and on the New York Stock Exchange and, as a consequence, National Grid is subject to regulation by the Financial Services Authority in the U.K., and by the U.S. Securities and Exchange Commission (“**SEC**”) and the stock exchanges themselves.

National Grid operates in a highly regulated environment, which means that good relationships with economic and safety regulators, in addition to its other stakeholders, are essential because they set the frameworks within which its businesses operate.

## U.K. Regulation

### *Regulatory framework*

In the U.K., energy networks are regulated by the Office of Gas and Electricity Markets (“**Ofgem**”). Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority (“**GEMA**”) and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses. Ofgem’s main priority is to protect the interests of consumers. It does this by regulating monopoly activities such as the companies that run the gas and electricity networks and by promoting competitive gas and electricity markets.

The Gas Act 1986 and Electricity Act 1989, as amended (the “**Acts**”), provide the fundamental legal framework for gas and electricity companies. The Acts establish the licences for electricity generation, transmission, distribution and supply, and for gas transmission, distribution, shipping and supply.

### *Regulatory licences*

National Grid’s main licensed businesses in the U.K. are:

- the gas transportation businesses of National Grid Gas plc, consisting the businesses of owning and operating the national transmission system and the retained distribution network businesses;
- National Grid Metering, which is a subsidiary of National Grid Gas and manages the latter’s domestic and non domestic metering assets;
- the electricity transmission business of National Grid Electricity Transmission plc; and
- the interconnector business of National Grid Interconnectors Ltd.

The Acts and licences granted under them require the gas transporter and electricity transmission businesses to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain. The Acts also provide the licensed businesses with statutory powers such as the right to bury National Grid’s pipes or cables under public highways and the ability to purchase land compulsorily in order to facilitate the conduct of its businesses. To ensure that its licensed businesses are operating efficiently, and that consumers are protected, National Grid operates under price controls in the U.K. These cover:

- the electricity transmission business’s role as transmission owner (“**TO**”),
- the electricity transmission business’s role as system operator (“**SO**”) (both in relation to internal and external costs);
- the gas transmission business’s TO and SO activities; and
- each of its four regional gas distribution networks.

In addition to the price controls, National Grid’s LNG storage business has a price control covering some aspects of its operations. There is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities undertaken by National Grid Metering.

### *Price control mechanism*

Price control regulation is designed to ensure that National Grid’s interests as a monopoly are balanced with those of its customers. Ofgem allows National Grid to charge reasonable, but not excessive, prices giving it a

future level of revenue sufficient to enable it to fulfil its statutory duties and licence obligations and also to make a reasonable return on its investment.

The price control regulation includes a number of mechanisms to achieve its objectives, including financial incentives, designed to encourage National Grid to: continuously improve the cost and effectiveness of its services; manage and operate its networks; provide quality customer service and invest in the development of the network in a manner that ensures long-term security of supply.

To ensure that its licensed businesses are operating efficiently, and consumers are protected, National Grid operates under eight type of price control mechanisms in the U.K., comprising two for its U.K. electricity transmission operations, one covering its role as TO and the other for its role as SO; two for its gas transmission operations, again one as a TO and other as a SO; and one for each of its four regional gas distribution networks. In addition to the eight price controls, the LNG storage business has a price control covering some aspects of its operations. There is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities undertaken by National Grid Metering.

#### Current price controls

The current price control mechanisms for National Grid's gas distribution business will expire on 31 March 2013. The price control mechanisms for its transmission business were extended for one year and will now also expire on 31 March 2013.

The current price control mechanism establishes that the amount of money that can be earned by its regulated businesses is restricted by what is referred to as an RPI-X price control. The RPI-X allowance is based on Ofgem's estimates of efficient operating expenditure ("opex"), capital expenditure ("capex") and, for gas distribution asset replacement ("repex"), together with an allowance for depreciation and an allowed rate of return on capital invested in its businesses. The RPI-X price control takes the RPI as its inflation benchmark and subtracts X, an efficiency factor, from it. For example, at a time when annual inflation was 3 per cent., a value for X of 2 per cent. would allow its regulated businesses to raise prices by no more than 1 per cent.

The RAV, which represents the value ascribed by Ofgem to the capital employed in National Grid's regulated businesses, is adjusted to reflect asset additions, removals, depreciation and the rate of inflation.

#### **U.K. regulatory developments**

##### Future price controls

In light of the challenges around the evolving energy environment and the significant investments required, Ofgem has introduced a new regulatory price control framework to replace the existing framework which has been in use for over 20 years. This is known as the RIIO model i.e. revenue = incentives + innovation + outputs ("RIIO").

Under this regime, networks will be encouraged to deliver outputs, such as agreed levels of safety, reliability and environmental performance, while ensuring timely connections for customers, improving on customer satisfaction and (for gas distribution only) complying with social obligations. The networks will be incentivised to deliver these, innovatively and efficiently. During the price control review process, Ofgem assesses what an efficient level of expenditure would be to deliver these outputs and then sets the revenue levels accordingly.

The RIIO price control will last for eight years with a mid-period review at four years. The fundamentals of how its revenue is derived under RIIO are not that different, but the mechanics of how capex and opex ("totex") are treated have changed. A fixed proportion of totex goes into the RAV (slow money) with the remainder being remunerated within the year (fast money).

National Grid has developed its business plans in conjunction with its stakeholders and has reflected their views and feedback in its updated plans, which were submitted to Ofgem in March and April 2012 for its U.K. Transmission and U.K. Gas Distribution businesses respectively.

On 27 July 2012, Ofgem published detailed initial proposals for price controls for National Grid's regulated UK Transmission and Distribution businesses. Overall, the proposals outlined plans for around £35 billion of total expenditure, in nominal terms, over the eight year period, together with uncertainty mechanisms to allow additional revenue if further investment is required. The consultation period on these proposals was ongoing until September 2012 and final proposals were issued by Ofgem on 17 December 2012.

On 27 February 2013, the Board of National Grid decided to accept the final proposals for new price controls for its Gas Distribution, Gas Transmission and Electricity Transmission businesses to run for eight years from 1 April 2013. The RIIO-T1 and RIIO-GD1 controls will cover all of National Grid's transmission and distribution owner and system operator businesses in the UK, with a regulated asset value in excess of £22bn. Ofgem's latest forecast predicts this asset value to grow by around 80 per cent. over the eight years of the price control, which will run from 1 April 2013. The Board of National Grid considered the price control proposals in detail and decided that the combination of revenue allowances and incentive mechanisms provides a good opportunity to earn appropriate returns for investors at the same time as delivering essential infrastructure investment for the benefit of consumers and the UK economy.

### Managing uncertainty

With an eight year price control period replacing the previous five year controls, there will inevitably be a larger exposure to potential variance against its forecasts; for example, on its electricity transmission business a different mix of generators may look to connect to the system than those National Grid has assumed in its baseline plan. In order to understand the impact that different outcomes might have, National Grid has modelled a range of credible future demand and generation scenarios using the scenarios developed with stakeholders through the U.K. Future Energy Scenarios process.

Following discussions with stakeholders, National Grid has proposed a number of regulatory mechanisms which would adjust its allowed investment levels over the period of the price control in order to ensure there are no inappropriate windfall gains or losses for its networks or consumers because of reality diverging from the assumptions it has made in forecasting the next eight years. In doing this, National Grid has maintained the principle that risks should be borne by the party best able to manage them.

In the RIIO Final Proposals, Ofgem confirmed details of these mechanisms for each of National Grid's UK businesses.

## **U.S. Regulation**

### *Regulators*

In the U.S., public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission ("NYPSC"), the Massachusetts Department of Public Utilities ("MADPU") and the Rhode Island Public Utilities Commission ("RIPUC"). Utility commissions serve as economic regulators in approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. The Federal Energy Regulatory Commission ("FERC") regulates the wholesale transactions of public utilities, such as interstate transmission and electricity generation, and provides for the cost recovery of these services.

Utility commissions are also charged with serving the public interest by ensuring utilities provide safe and reliable service at just and reasonable prices. They establish service standards and approve mergers and

acquisitions of public utilities. FERC also regulates public utility holding companies and centralised service companies, including those of the U.S. businesses of National Grid.

All the states in which National Grid operates have deregulated the commodity or supply component of electricity and gas utility services. Customers in deregulated states have the option to purchase electricity or gas service from competitive suppliers.

#### *Regulatory process*

Utilities in the U.S. submit a formal rate filing requesting a revenue adjustment in a proceeding known as a rate case. The rate case process is conducted in a litigated setting and, in the states in which National Grid operate, it can take six to 13 months for the commission to render a final decision. In all states, the utility is required to prove that its requested rate change is prudent and reasonable. At FERC there is no defined process for adjudicating a rate case. FERC allows rates to be put in place before a final decision is reached. However, a refund may be required if the outcome is unfavourable. The utility may request a rate plan that can span multiple years.

During the rate case process, consumer advocates and other intervening parties scrutinise and often file opposing positions to the utility's rate request. The rate case decision reflects a weighing of the facts in light of the regulator's policy objectives. During a rate case, the utility, consumer advocates and intervening parties may agree on the resolution of aspects of a case and file a negotiated settlement with a commission for approval.

Gas and electricity rates are established from a revenue requirement, or cost of service, representing the utility's total cost of providing distribution or delivery service to its customers. It includes operating expenses, depreciation, taxes and a fair and reasonable return on the utility's regulated asset base, typically referred to as its rate base. The rate of return applied to the rate base is the utility's weighted average cost of capital, representing its cost of debt and an allowed return on equity ("**RoE**") intended to provide the utility with an opportunity to attract capital from investors and maintain its financial integrity. The total cost of service is apportioned among different customer classes and categories of service to establish the rates, through a process called rate design, for these classes of customers. The final cost of service and rate design is ultimately approved in the rate case decision.

The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year which are intended to arrive at the total costs expected in the first year new rates will be in effect, or the rate year, and may include forecasted capital investments in determining rate year rate base. Often, known and measurable adjustments are made to test year data to reflect normal operating conditions. In Massachusetts, only limited adjustments to this test year data are allowed, which are required to be both known and measurable. New York and Rhode Island allow more comprehensive adjustments to the test year data.

Once approved, base rates are typically either fixed until the next request is filed and litigated, or may be adjusted pursuant to a multi-year rate plan. Consequently, if costs change substantially between rate cases and base rates remain unchanged during the same period, the result can be large discrepancies between revenue generated from rates and actual costs incurred and recoverable, commonly referred to as 'regulatory lag'.

### **U.S. regulatory developments**

#### *National Grid's rate plans*

National Grid has four sets of electricity rates and six sets of gas rates, covering its electricity distribution operations in upstate New York, Massachusetts and Rhode Island, and its gas distribution networks in

upstate New York, New York City, Long Island, Massachusetts and Rhode Island. Distribution and transmission electricity services in upstate New York continue to be subject to a combined rate that is billed to end use customers. In New England, retail transmission rates reflect the recovery from National Grid's end use customers of wholesale transmission charges assessed to National Grid's electricity distribution companies. Wholesale rates for National Grid's electricity transmission network in New England and New York and for its Long Island generation business (i.e. GENCO) are subject to FERC approval.

National Grid has regulatory arrangements that provide for the recovery of its historical investments and commitments related to its former electricity generation business that were stranded when some of its U.S. subsidiaries divested their generation assets as part of industry restructuring and wholesale power deregulation in New England and New York. National Grid has recovered most of its sunk investments in generation assets and revenue associated with stranded cost recoveries will decline significantly in future years.

National Grid's rate plans are designed to produce a specific allowed RoE, by reference to an allowed operating expense level and rate base. Some rate plans include earned savings mechanisms that allow National Grid to retain a proportion of the savings National Grid achieves through improving efficiency, with the balance benefiting customers.

In addition, National Grid's performance under certain rate plans is subject to service performance targets. National Grid may be subject to monetary penalties in cases where it does not meet those targets.

#### *Allowed RoE in context*

One measure used to monitor the performance of National Grid's regulated businesses is a comparison of achieved RoE to allowed RoE, with a target that the achieved should be equal to or above the allowed. However, this measure cannot be used in isolation, as there are a number of factors that may prevent National Grid from achieving that target in any given year:

- Regulatory lag: in the years following the rate year, costs may increase due to inflation or other factors. If the cost increases cannot be offset by productivity gains, the total cost to deliver will be higher as a proportion of revenue and therefore achieved RoE will be lowered.
- Cost disallowances: a cost disallowance is a decision by the regulator that a certain expense should not be recovered in rates from customers. The regulator may do this for a variety of reasons. National Grid can respond to some disallowances by choosing not to incur those costs; others may be unavoidable. As a result, unless offsetting cost reductions can be found, the achieved RoE will be lowered.
- Market conditions: if a utility files a new rate case, the new allowed RoE may be below the current allowed RoE as financial market conditions may have changed. As such, a utility that appears to be underperforming the allowed RoE and files a new rate case may not succeed in increasing revenues.

National Grid works to increase achieved RoEs through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and, through filing a new rate case when achieved returns are lower than that which it could reasonable expect to have granted through a new rate case.

#### *Features of National Grid's rate plans*

Unlike the position in the U.K., National Grid is responsible for billing its customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and delivery charges, covering National Grid's delivery service. Depending on the state, delivery rates are either based upon actual sales volumes and costs incurred in an historical test

year, or on estimates of sales volumes and costs, and in both cases may differ from actual amounts. A substantial proportion of National Grid’s costs, in particular electricity and gas purchases for supply to customers, are pass-through costs, meaning they are fully recoverable from its customers. National Grid’s charges to customers are designed to recover these costs with no profit. Rates are adjusted from time to time to ensure any over- or under-recovery of these costs is returned to, or recovered from, its customers. There can be timing differences between costs being incurred and rates being adjusted.

Revenue for National Grid’s wholesale transmission business in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include its own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end use customers as approved by each state commission.

National Grid’s Long Island generation plants, GENCO, sell capacity to LIPA under a power sales contract, approved by FERC, which provides a similar economic effect to cost of service rate regulation. On 2 October 2012, NGUSA announced that it had reached an agreement with LIPA to modify and extend the existing power supply agreement for at least another 12 years subject to LIPA’s option to terminate the agreement as early as April 2025 with two years advance notice.

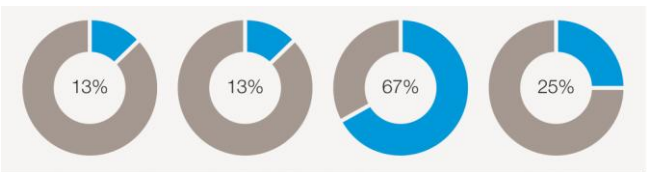
*Regulatory filings*

The objectives of National Grid’s rate case filings are to ensure that National Grid has the right cost of service with the ability to earn a fair and reasonable rate of return, while providing safe and reliable service to its customers. In order to achieve these objectives and to reduce regulatory lag, National Grid has been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity related bad debt true ups, and pension and other post-employment benefit (“**OPEB**”) true ups, separately from base rates. These terms are explained below.

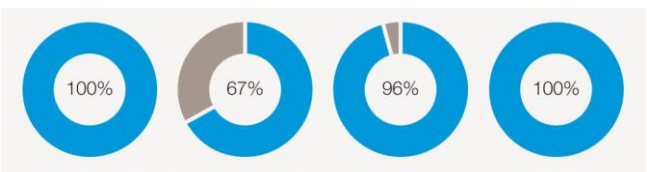
The chart below shows the progress National Grid has made on these regulatory principles. National Grid continues to work towards implementing these regulatory principles across its U.S. business.

<b>Revenue Decoupling</b>	<b>Capital Trackers</b>	<b>Pension True Up</b>	<b>Commodity Bad Debt True Up</b>
-------------------------------	-----------------------------	----------------------------	---

**December 2007\***



**March 2012\***



● % of rate plans, measured by rate base, with feature fully or partially in place  
 ● % of rate plans, measured by rate base, without feature

\*Percentage figure relates to proportion of rate base (at 31 March 2012) affected (excluding stranded costs)



Although many of National Grid's rate plans feature revenue decoupling, in some cases decoupling applies only to some classes of customer. As a result, the proportion of revenues which is decoupled is 91 per cent. for National Grid's electricity businesses and 64 per cent. for its gas businesses for 2011/12. Transmission and generation revenue is effectively decoupled.

National Grid has ongoing regulatory filings associated with downstate New York deferrals and tax refunds. Progress continues in these areas. Significant developments in rate filings during the year are summarised below.

### Summary of US price controls and rate plans

	Rate plan	2010	2011	2012	2013	2014	Rate base (31 Mar 2012)	Equity to debt ratio	Allowed return on equity	Achieved return on equity (31 Dec 2011)	Revenue decoupling <sup>†</sup>	Capital tracker <sup>‡</sup>	Commodity related bad debt true up <sup>§</sup>	Pension/ OPEB true up <sup>§</sup>
New York Public Service Commission	Niagara Mohawk* (upstate, electricity)	+	●		+		\$3,861m	48:52	9.30%	5.6%	✓	X	P	✓
	Niagara Mohawk (upstate, gas)		◆	+	+		\$980m	44:56	10.20%	6.5%	✓	X	P	✓
	KEDNY (downstate)				◆		\$2,048m	45:55	9.80%	11.9%	P	P	P	✓
	KEDLI (downstate)				◆		\$1,806m	45:55	9.80%	9.4%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	●					\$1,677m	50:50	10.35%	9.5%	✓	P	✓	✓
	Boston Gas Essex Gas	+	●				\$1,072m	50:50	9.75%	10.6%	✓	P	✓	✓
	Colonial Gas	+	●				\$244m	50:50	9.75%	10.7%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	●		+	●		\$544m	49:51	9.80%	7.6%	✓	✓	P	F
	Narragansett Gas			+	●		\$332m	48:52	10.50%	6.4%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett						\$427m	50:50	11.14%	11.6%	N/A	✓	N/A	✓
	Canadian Interconnector						\$45m	40:60	13.00%	12.0%	N/A	✓	N/A	✓
	New England Power						\$965m	65:35	11.14%	11.1%	N/A	✓	N/A	✓
	Long Island Generation	●			◆		\$470m	45:55	10.75%	12.4%	N/A	✓	N/A	✓

+ Rate filing made  
 ● New rates effective  
 ◆ Rate plan ends  
 --- Rates continue indefinitely  
 ✓ Feature in place  
 X Feature not in current rate plan  
 P Feature partially in place  
 F Feature requested in pending filing

\* Both transmission and distribution, excluding stranded costs

†**Revenue decoupling:** A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡**Capital tracker:** A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§**Commodity related bad debt true up:** A mechanism that allows a utility to reconcile commodity related bad debt to either actual commodity related bad debt or to a specified commodity related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

§**Pension/OPEB true up:** A mechanism that reconciles the actual non capitalised costs of pension and other post-employment benefits and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

**Note:** new rates will be effective in 2013 for NIMO, KEDNY and Narragansett.

### New York State review

In February 2011, NYPSC instituted a New York State proceeding to review its site investigation and environmental remediation (“SIR”) expenditure policies. The proceeding directed New York State’s utilities to assist in developing the future scope of utility SIR programmes including cost containment, cost allocation and methods for minimising the impact on customers of SIR cost recovery. A Recommended Decision was issued on 3 November 2011 – the proceeding is open and ongoing.

#### Upstate New York 2012 Rate Filing – Niagara Mohawk Power Corporation

On 27 April 2012, NGUSA filed a one year rate plan filing for its upstate New York electricity and gas businesses to take effect from 1 April 2013. The filing is based on a RoE of 10.55 per cent. for the one year rate filing, and included annual reconciliation mechanisms for certain non-controllable costs. On 31 October 2012, NGUSA filed a term sheet reflecting the provisions of a proposed three year agreement in respect of new rates in Niagara Mohawk’s gas and electric businesses. This followed NGUSA’s initial filing in April and subsequent discussions with the staff of the NYPSC and other participants in the proceeding. The agreement proposes a 9.3 per cent. allowed return on equity, a 48 per cent. equity portion in the assumed capital structure and increased operating cost allowances for both businesses. The final agreement was filed in early December 2012 following which the administrative law judge made a recommendation to the commission. NGUSA expects a final decision by the commission before the end of its current financial year ending 31 March 2013, with new rates in effect as of 1 April 2013.

#### Upstate New York deferral filing

On 16 December 2011, NYPSC approved Niagara Mohawk Power Corporation’s request to recover U.S.\$240 million in deferred costs (U.S.\$211 million related to deferred environmental, capital expenditures, and pension costs included in its July 2011 deferral filing, U.S.\$25 million related to recent storm response costs, and U.S.\$4 related million to carrying charges and other adjustments). This amount will be collected over 15 months, effective from 1 January 2012. In addition, NYPSC approved the removal of U.S.\$573 million from Niagara Mohawk’s rates related to stranded cost recoveries.

#### Downstate New York 2012 Rate Filing - Brooklyn Union Gas (KEDNY)’s

KEDNY’s five year natural gas rate agreement ended on 31 December 2012. In November 2012, KEDNY and the staff of the Commission entered into confidential discussions to explore extending and updating aspects of the five year rate agreement that ended on 31 December 2012. The notice of impending settlement negotiations was filed with the NYPSC in early December 2012.

National Grid together with the New York State Department of Public Service Staff and other parties, filed a term sheet with the NYPSC which sets out a summary of a proposed two year agreement for extending and modifying elements of the original KEDNY five year rate plan that expired. The proposed settlement is not expected to impact materially on customer bills or KEDNY’s revenues over the period of the rate agreement.

On 15 January 2013, NGUSA filed a term sheet reflecting the provisions of a proposed two year rate agreement to the existing Brooklyn Union Gas Company’s (i.e. KEDNY) rate plan. The NGUSA proposal provides for a continuation of KEDNY’s existing rate plan with no change in base gas delivery rates during the rate years ending 31 December 2013 and 2014 (i.e. rate years six and seven of the existing rate plan) and includes a 9.4 per cent. return on equity in each of the two years 2013 and 2014, with a 48 per cent. equity structure in the business, which return and cap structure is financially equivalent to the terms of the original five year rate plan (9.8 per cent. return on equity and 45 per cent. equity structure). Under the proposed agreement, 80 per cent. of any earnings over 9.4 per cent. will be allocated to fund recovery of prior environmental deferrals with the remaining 20 per cent. being retained by KEDNY. The proposed agreement also includes an increase in capital expenditure allowances to U.S.\$320.1 million in 2013 and U.S.\$293.7 million in 2014 as compared to the original rate plan capital allowances of U.S.\$155.4 million per year. The agreement also proposes updates to various customer service and other performance metrics. Under the proposed agreement, there is no impact on the delivery rates for customers. A joint proposal formalising the

settlement was filed on 22 February 2013. The Commission is expected to issue an Order on the settlement proposal in the spring of 2013.

#### Rhode Island 2012 rate filing and appeal of ruling in 2009 rate filing

On 27 April 2012, National Grid filed a new rate plan for its Rhode Island electricity and gas businesses, which took effect from 1 February 2013. The filing requests increases in electricity distribution revenue of U.S.\$31 million and gas delivery revenue of U.S.\$20 million, based on an RoE of 10.75 per cent. with annual reconciliation mechanisms for certain non-controllable costs such as pensions and OPEB, property taxes and commodity bad debt.

In order to ensure the new investments are effectively implemented, the new filing sets out the case for new rates, cost of service allowances and other needs for the businesses. The capital spending programme for these two utilities is addressed annually outside of this filing. The current levels of approved capital investment for the year which commenced on 1 April 2012 are U.S.\$61.9 million for the gas system and U.S.\$56.5 million for the electricity system.

On 19 October 2012, NGUSA filed for an executed settlement agreement for review and approval by the RIPUC. The settlement agreement proposes a 9.5 per cent. allowed return on equity, a 49 per cent. equity portion in the assumed capital structure, increased operating cost allowances and pension trackers. At an open meeting conducted on 20 December 2012, the RIPUC unanimously approved rate case settlements, as amended, for National Grid's Narragansett gas and electric utility businesses. A written order approving the amended settlement was issued by the Commission on 31 January 2013. The new rate plans, as approved include a 9.5 per cent. allowed return on equity, a 49 per cent. equity portion in the assumed capital structure, pension trackers and increased operating cost allowances compared to the current rate plans. The new rate plans provide for a revenue increase of U.S.\$21.5 million for electric operations and U.S.\$11.3 million for gas operations. They also provide for an annual property tax recovery mechanism included in the Narragansett's annual capital programme that more closely aligns rate recovery and costs related to property tax expenses. The new rates, as per the January 2013 rate order, became effective on 1 February 2013 and will continue until modified by RIPUC.

On 23 January 2012, the Rhode Island Supreme Court issued its decision on its appeal of RIPUC's decision in its 2009 rate case. The Court reversed RIPUC's decision to impose National Grid's capital structure onto Narragansett but affirmed their decision to disallow 50 per cent. of its incentive compensation. On 11 April 2012, RIPUC adopted a settlement resolving the capital structure aspects of the rate order, which National Grid had appealed. The settlement authorises Narragansett a capital structure comprised of 48.78 per cent. common equity, an overall rate of return of 7.31 per cent., and an additional U.S.\$3.2 million electricity rate increase, effective from 23 April 2012.

#### Overland audit

In February 2011, NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of its affiliate cost allocation, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery services. If potentially material levels of misallocated or inappropriate costs are discovered, at the direction of NYPSC, the investigation will be expanded to prior years to determine if they have been charged to the New York utilities. Overland Consulting Inc.'s report of this review was provided to NGUSA and NYPSC in October 2012. NGUSA has prepared and filed their comments and responses to the information provided in the report, and where appropriate, any noted any disagreements with the findings contained in the report. On 17 January 2013, NYPSC received Overland's final report and NGUSA's final comments and responses to the recommendations and findings of the report. On 18 January 2013 the NYPSC issued an Order directing NGUSA to implement certain recommendations contained in the final report. The Order also initiates a new proceeding to evaluate further whether any

further adjustments to rates or earnings sharing mechanisms are required for NGUSA's New York businesses based upon the findings in the Overland Report.

## Other U.S. Developments

### Effects of 'Superstorm' Sandy

In late October 2012 'Superstorm' Sandy ("Sandy") hit the north eastern United States affecting power supply to Brooklyn Union and Gas East customers' expenses associated with gas and electric customer restoration following Sandy are currently being evaluated and may impact operating profit for the year ending 31 March 2013. NGUSA intends to pursue recovery of all costs and expenses related to Sandy that are allowed under the existing rate plans, regulatory regimes and contractual arrangements with third parties.

### Clean Line Energy Partners LLC Investment

On November 27, 2012, NGUSA announced a U.S.\$40 million investment through a subsidiary into Clean Line Energy Partners LLC ("Clean Line"), an emerging leader in the development of long distance, high voltage direct current ("HVDC") transmission projects to move renewable energy to market. With this investment, NGUSA expects to support Clean Line to help advance several large-scale projects designed to connect the high quality wind energy resources in the U.S. to communities and cities that have a strong demand for low-cost, clean power. The investment in Clean Line is sourced from general corporate funds and is not subject to US regulatory remuneration. Under the terms of the transaction, National Grid will have the ability to acquire a significant ownership stake in Clean Line's HVDC projects. The closing of the transaction is subject to regulatory approvals which are still pending.

## Board of Directors

The Directors of National Grid and their functions and principal activities outside the National Grid Group, are as follows:

<b>Name</b>	<b>Title</b>	<b>Principal activities outside the National Grid Group</b>
Sir Peter Gershon	Chairman (Non-Executive)	Chairman of Tate & Lyle plc, member of the U.K. Defence Academy Advisory Board and HM Government Efficiency Board
Steven Holliday	Chief Executive	Non-Executive Director of Marks and Spencer Group plc and Chairman of The U.K. Business Council for Sustainable Energy, Crisis U.K., the National Technician Council and member of both the Board of Trustee Directors for Business in The Community and Infrastructure U.K. Advisory Council
Andrew Bonfield	Finance Director	Non-Executive Director of Kingfisher plc
Tom King	Executive Director Electricity Distribution and Generation	None
Nick Winser	Executive Director, Transmission	Non-Executive Director of Kier Group plc and co-Chair of the Energy Research Partnership

Philip Aiken	Non-Executive Director	Chairman of Robert Walters plc, Deputy Chairman of AVEVA Group plc, Non-Executive and Senior Independent Director of Kazakhmys plc, and Non-Executive Director of Miclyn Express Offshore Limited and Essar Energy plc
Nora Brownell	Non-Executive Director	Non-executive director of Spectra Energy Partners LP, ONCOR Electric Delivery Holding Company, Tangent Energy Solutions and Times Publishing Company and a partner in ESPY Energy Solutions, LLC
Jonathan Dawson	Non-executive Director	Non-executive Director and Senior Independent Director of Next plc, Non-executive Director of Jardine Lloyd Thompson Group plc and founding partner in Penfida Partners LLP.
Paul Golby	Non-Executive Director	Non-executive Chairman of AEA Technology Group plc, Chairman of Engineering U.K., Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology
Kenneth Harvey	Non-Executive Director (Senior Independent Director)	Chairman of Pennon Group plc
Ruth Kelly	Non-Executive Director	Managing Director at HSBC and Governor for the National Institute of Economic and Social Research
Maria Richter	Non-Executive Director	Non-Executive Chairman of Pro Mujer U.K. and Non-Executive Director of Pro Mujer International, The Pantry Inc., The Vitec Group plc and The Bessemer Group Inc.
George Rose	Non-Executive Director	Member of the U.K. Industrial Development Advisory Board, Non-executive Director of Genel Energy plc and Laing O'Rourke plc
Mark Williamson	Non-Executive Director	Non-Executive and Senior Independent Director of Imperial Tobacco Group plc

The business address of each of the above is 1-3 Strand, London WC2N 5EH.

There are no potential conflicts of interest between the duties to National Grid of the Directors listed above and their private interests or other duties.

## **Share Capital**

As at 12 March 2013 (being the latest practicable date prior to the publication of this document), the allotted, called up and fully paid share capital of National Grid comprised 3,795 million shares having a par value of 11.395 pence each.

## **USE OF PROCEEDS**

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

## TAXATION

**The following applies only to persons who are the absolute beneficial owners of Securities and is a non-exhaustive summary of the Issuer's and the Guarantor's understanding of current United Kingdom tax law as applied in England & Wales and published HM Revenue and Customs ("HMRC") practice (which may not be binding on HMRC) relating to the United Kingdom withholding tax treatment of payments in respect of the Securities and certain information reporting requirements relating to payments of interest. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer and/or the Guarantor) to whom special rules may apply. The United Kingdom tax treatment of prospective Holders depends on their individual circumstances and may be subject to change in the future. Prospective Holders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

### **1. Withholding**

#### **1.1 *Payments of interest on the Securities***

Payments of interest on the Securities by the Issuer may be made without deduction of or withholding on account of United Kingdom income tax provided that the Securities continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the "**Act**"). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Securities remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Securities may also be paid without withholding or deduction on account of United Kingdom income tax where interest on the Securities is paid by a company and, at the time the payment is made, that company reasonably believes that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Securities on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Holder, HMRC can issue a notice to the Issuer to pay interest to the Holder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

#### **1.2 *Payments in respect of the Guarantee***

If the Guarantor makes any payments in respect of interest on the Securities (or other amounts due under the Securities other than the repayment of amounts subscribed for the Securities), such payments might be subject to withholding on account of United Kingdom income tax at the basic rate, subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by the Guarantor might not be eligible for the other exemptions from the obligation to withhold tax described above.



### 1.3 *Treatment of any premium payable on redemption*

Where Securities 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 the rules on United Kingdom withholding tax outlined above and reporting requirements as outlined below.

## **2. Information reporting on interest and EU Savings Directive**

### 2.1 *Information reporting on interest*

Holders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom by or through whom interest is paid to another person who is an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with tax authorities in other countries.

### 2.2 *EU Savings Directive*

Under the Savings Directive, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest (or similar income) may request that no tax be withheld). 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 Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

Barclays Bank PLC, Merrill Lynch International, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, HSBC Bank plc, Morgan Stanley & Co. International plc, Société Générale, Banco Bilbao Vizcaya Argentaria, S.A., Bank of China (Hong Kong) Limited, Commonwealth Bank of Australia, Goldman Sachs International, ING Bank N.V. Belgian Branch, Lloyds TSB Bank plc, Mitsubishi UFJ Securities International plc, Mizuho International Plc, National Australia Bank Limited ABN 12 004044 937, The Royal Bank of Scotland plc, UBS Limited, UniCredit Bank AG and Wells Fargo Securities International Limited (together, the “**Managers**”) have, pursuant to the Subscription Agreement (as defined below) dated 14 March 2013, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Euro Securities at an issue price of 99.973 per cent. of their principal amount and the Sterling Securities at an issue price of 99.954 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment in respect of the Securities being made to the Issuer.

### United States

The Securities have not been and will not be registered under the U.S. 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 U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

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

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

### United Kingdom

Each Manager has represented and agreed that:

- (f) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

- (g) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

## **Hong Kong**

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Securities other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Singapore**

Each Manager has acknowledged that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented and agreed that it has not offered or sold any Securities or caused such Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell such Securities or cause such Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

- 1.2 where no consideration is or will be given for the transfer;

- 1.3 where the transfer is by operation of law; or
- 1.4 as specified in Section 276(7) of the SFA.

## **Japan**

Each Manager has acknowledged that the Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the FIEA). Accordingly each Manager has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **General**

No action has been or will be taken in any country or jurisdiction by the Issuer, the Guarantor or the Managers that would permit a public offering of the Securities, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Securities or have in their possession or distribute such offering material, in all cases at their own expense.

Each Manager has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Securities or has in its possession or distributes this Prospectus or any other offering material and none of the Issuer, the Guarantor and any other Manager shall have responsibility for such material.

## GENERAL INFORMATION

1. The listing of each Tranche on the Official List will be expressed as a percentage of its principal amount (exclusive of accrued interest). It is expected that listing of each Tranche on the Official List and admission of each Tranche to trading on the Market will be granted on or about 19 March 2013, subject only to the issue of the relevant Temporary Global Security. Prior to official listing, dealings will be permitted by the Market in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.
2. The issue of the Securities was authorised by a resolution of the Finance Committee of the board of directors of the Issuer passed on 23 January 2013 and the Guarantee was authorised by a resolution of the Finance Committee of the board of directors of the Guarantor passed on 23 January 2013 and a written resolution of the Finance Committee of the board of directors of the Guarantor passed on 11 March 2013.
3. There are no, nor have there been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have, or have in such period had, significant effects on the financial position or profitability of the Issuer and/or the Issuer and its subsidiary (the “**Issuer's Group**”), the Guarantor and/or the Guarantor and its subsidiaries (the “**Group**”).
4. There has been no significant change in the financial or trading position of the Issuer or the Issuer's Group since 31 March 2012 and no significant change in the financial or trading position of the Guarantor or the Group since 30 September 2012 and no material adverse change in the prospects of the Issuer, the Issuer's Group, the Guarantor or the Group since 31 March 2012.
5. PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors of 1 Embankment Place, London, WC2N 6RH (members of the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements prepared under IFRS of the Guarantor for the two years ended 31 March 2012.
6. PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors of 1 Embankment Place, London, WC2N 6RH (members of the Institute of Chartered Accountants in England and Wales), have audited, and rendered unqualified audit reports on, the consolidated annual financial statements prepared under IFRS of the Issuer for the two years ended 31 March 2012.
7. Each Security and Coupon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
8. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In respect of the Euro Securities, the International Securities Identification Number (“**ISIN**”) is XS0903531795 and the Common Code is 090353179, and in respect of the Sterling Securities, the ISIN is XS0903532090 and the Common Code is 090353209.

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.

9. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents may be inspected during usual business hours on any

weekday (Saturdays, Sundays and public holidays excepted), at the specified office of the Guarantor and the specified office in London of the Principal Paying Agent:

- (a) a copy of this Prospectus together with any supplement to this Prospectus or further prospectus;
  - (b) the Memorandum and Articles of Association of the Issuer;
  - (c) the Memorandum and Articles of Association of the Guarantor;
  - (d) the audited consolidated annual financial statements of the Guarantor and the audited consolidated annual financial statements of the Issuer for the financial years ended 31 March 2011 and 31 March 2012, respectively, and the most recently available unaudited interim financial statements of the Guarantor; and
  - (e) the trust deed in respect of the Euro Securities dated the Issue Date between the Issuer, the Guarantor and the Trustee (the “**Euro Securities Trust Deed**”), the trust deed in respect of the Sterling Securities dated the Issue Date between the Issuer, the Guarantor and the Trustee (the “**Sterling Securities Trust Deed**” and, together with the Euro Securities Trust Deed, the “**Trust Deeds**”), the paying agency agreement in respect of the Euro Securities dated the Issue Date between the Issuer, the Guarantor, the Trustee and the agents named therein (the “**Euro Securities Paying Agency Agreement**”) and the paying agency agreement in respect of the Sterling Securities dated the Issue Date between the Issuer, the Guarantor, the Trustee and the agents named therein (the “**Sterling Securities Paying Agency Agreement**” and, together with the Euro Securities Paying Agency Agreement, the “**Paying Agency Agreements**”).
10. In addition, this Prospectus will be available on the website of the Regulatory News Service operated by the London Stock Exchange at [www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html](http://www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html).
11. In relation to each Tranche, the Issuer and the Guarantor intend (without thereby assuming a legal obligation), that if they redeem or repurchase a Tranche, they will so redeem or repurchase the relevant Tranche only to the extent the aggregate principal amount of the Tranche to be redeemed or repurchased does not exceed such part of the net proceeds received by the Issuer, the Guarantor or any Subsidiary of the Guarantor during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance by the Issuer, the Guarantor or such Subsidiary to third party purchasers (other than group entities of the Guarantor) of securities which are assigned by Standard & Poor's, as the case may be, an aggregate “equity credit” (or such similar nomenclature used by Standard & Poor's from time to time) that is equal to or greater than the “equity credit” assigned to the Tranche to be redeemed or repurchased at the time of their issuance (but taking into account any changes in hybrid capital methodology or the interpretation thereof since the issuance of the relevant Tranche), unless:
- (i) the rating assigned by Standard & Poor's to the Guarantor is at least “A-“ (or such similar nomenclature then used by Standard & Poor's) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase; or
  - (ii) in the case of a repurchase, such repurchase is of less than (i) 10 per cent. of the aggregate principal amount of the relevant Tranche originally issued in any period of 12 consecutive months or (ii) 25 per cent. of the aggregate principal amount of the relevant Tranche originally issued in any period of 10 consecutive years; or

- (iii) the relevant tranche is redeemed pursuant to a Rating Capital Event (to the extent it is triggered by a change of methodology at Standard & Poor's), a Tax Deductibility Event or a Withholding Tax Event; or
  - (iv) the relevant Tranche is not assigned an "equity credit" (or such similar nomenclature then used by Standard & Poor's or Fitch) at the time of such redemption or repurchase; or
  - (v) such redemption or repurchase occurs on or after 18 June 2040 (in the case of the Euro Securities) and 18 June 2045 (in the case of the Sterling Securities).
12. For each Interest Period ending before the Euro Securities First Reset Date, the yield on the Euro Securities will be 4.250 per cent. per annum. For each Interest Period ending before the Sterling Securities First Reset Date, the yield on the Sterling Securities will be 5.625 per cent. per annum. The relevant yield is calculated at the Issue Date on the basis of the relevant Issue Price. It is not an indication of future yield.
  13. The expenses related to the admission of the Securities to the Official List and to trading on the Market are estimated to amount to £8,400.
  14. Certain of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

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

## REGISTERED OFFICE OF NGG FINANCE PLC AND NATIONAL GRID PLC

c/o National Grid plc  
1-3 Strand  
London WC2N 5EH  
United Kingdom

## JOINT STRUCTURING ADVISERS AND JOINT LEAD MANAGERS

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

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

## JOINT LEAD MANAGERS

*In respect of the Euro Securities*  
**Deutsche Bank AG, London Branch**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB,  
United Kingdom

*In respect of the Sterling Securities*  
**Citigroup Global Markets Limited**  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB,  
United Kingdom

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

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

**Société Générale**  
Tour Société Générale  
17 cours Valmy  
92987 Paris la Défense Cedex  
France

**HSBC Bank plc**  
8 Canada Square  
London E14 5HQ,  
United Kingdom

## CO-MANAGERS

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

**Bank of China (Hong Kong) Limited**  
Global Markets, 8/F,  
Bank of China Tower,  
1 Garden Road, Hong Kong

**Commonwealth Bank of Australia**  
Senator House,  
85 Queen Victoria Street,  
London EC4V 4HA  
United Kingdom

**Goldman Sachs International**  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB  
United Kingdom



**ING Bank N.V. Belgian Branch**

Avenue Marnix, 24  
B - 1000 Brussels  
Belgium

**Lloyds TSB Bank plc**

10 Gresham Street,  
London EC2V 7AE  
United Kingdom

**Mitsubishi UFJ Securities International plc**

Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9AJ  
United Kingdom

**Mizuho International plc**

Bracken House  
One Friday Street  
London EC4M 9JA  
United Kingdom

**National Australia Bank Limited**

**ABN 12 004044 937**  
88 Wood Street  
London EC2V 7QQ  
United Kingdom

**The Royal Bank of Scotland plc**

135 Bishopsgate  
London EC2M 3UR  
United Kingdom

**UBS Limited**

1 Finsbury Avenue  
London EC2M 2PP  
United Kingdom

**UniCredit Bank AG**

Arabellastrasse 12  
81925 Munich  
Germany

**Wells Fargo Securities International Limited**

30 Fenchurch Street  
1 Plantation Place  
London EC3M 3BD  
United Kingdom

**AUDITORS OF NATIONAL GRID PLC AND  
NGG FINANCE PLC**

**PricewaterhouseCoopers LLP**

1 Embankment Place  
London WC2N 6RH  
United Kingdom

**TRUSTEE****The Law Debenture Trust Corporation p.l.c.**

Fifth Floor  
100 Wood Street  
London EC2V 7EX  
United Kingdom

**PRINCIPAL PAYING AGENT****The Bank of New York Mellon**

One Canada Square  
London E14 5AL  
United Kingdom

## LEGAL ADVISERS

*To the Issuer and the Guarantor as to English law*

**Linklaters LLP**  
One Silk Street  
London EC2Y 8HQ  
United Kingdom

*To the Managers and the Trustee as to English law*

**Allen & Overy LLP**  
One Bishops Square  
London E1 6AD  
United Kingdom