

PROSPECTUS DATED 2 JULY 2012



NORTHERN POWERGRID (YORKSHIRE) plc
*(incorporated in England with limited liability under
the Companies Act 1985 with registered number 04112320)*

£150,000,000

4.375 per cent. Bonds due 2032

Issue Price: 98.578 per cent.

The £150,000,000 4.375 per cent. Bonds due 2032 (the "**Bonds**") of Northern Powergrid (Yorkshire) plc (the "**Issuer**") will be issued pursuant to the bond trust deed to be dated 5 July 2012 (the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as bond trustee (the "**Trustee**", which expression includes the trustee or trustees for the time being of the Trust Deed).

The Bonds will bear interest from 5 July 2012 at the rate of 4.375 per cent. per annum payable annually in arrear on 5 July in each year.

The Bonds mature on 5 July 2032. The Issuer may, at its option, redeem all or (as the case may be) some only of the Bonds at any time in accordance with Condition 7(b) (*Redemption at the option of the Issuer*) at the higher of their principal amount and an amount calculated by reference to yields on United Kingdom government stock together with accrued interest. The Issuer may also, at its option, redeem all (but not some only) of the Bonds at any time at their principal amount together with accrued interest in the event of certain tax changes as described in Condition 7(c) (*Redemption for tax reasons*). Upon the occurrence of certain events the holders of the Bonds may require the Issuer to redeem the Bonds at their principal amount together with accrued interest — see "*Terms and Conditions of the Bonds — Restructuring Event*".

An investment in the Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*".

An application has been made to the United Kingdom Financial Services Authority ("**FSA**") in its capacity as competent authority under the Financial Services and Markets Act 2000 for the Bonds to be admitted to the Official List of the FSA and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Bonds to be admitted to trading on the London Stock Exchange's Regulated Market. The London Stock Exchange's Regulated 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.

This Prospectus comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended by Directive 2010/73/EU, (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom.

The Bonds are expected to be rated upon issue A- by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"), A3 by Moody's Investors Service Limited ("**Moody's**") and A by Fitch Ratings Limited ("**Fitch**"). 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. Each of Moody's, S&P and Fitch is established in the European Union and is registered in accordance with Regulation (EC) No. 1060/2009, as amended, of the European Parliament and of the Council of 16 September 2009 on credit rating agencies and are included in the list of registered credit rating agencies published at the website of the European Securities and Markets Authority.

The Bonds will initially be represented by a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or around 5 July 2012 (the "**Closing Date**") with a common depository for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Temporary Global Bond will be exchangeable, in whole or in part, for interests in a permanent global bond (the "**Permanent Global Bond**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive form with interest coupons attached.

Joint Lead Managers

Lloyds Bank

The Royal Bank of Scotland

Santander Global Banking & Markets

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus.

No person has been authorised to give any information or to make representations, other than those contained in this Prospectus, in connection with the offering of the Bonds and, if given or made, any such information or representations must not be relied upon as having been authorised by the Issuer, the Joint Lead Managers (as defined under "*Subscription and Sale*" below) or the Trustee.

Neither the delivery of this Prospectus nor any sale made in connection herewith shall under any circumstances constitute a representation, or create any implication that there has been no change since the date hereof in the affairs of the Issuer or that information contained herein has remained accurate and complete.

This Prospectus does not constitute an offer to sell, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any of the Bonds. This Prospectus does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

The Joint Lead Managers and the Trustee have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability (whether arising in tort or contract or otherwise) is accepted by the Joint Lead Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Bonds or their distribution.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Prospectus should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**"), or under any relevant securities laws of any state or other jurisdiction of the United States, and are subject to U.S. tax law requirements. The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws. For a

description of certain restrictions on the offer, sale and delivery of the Bonds and on the distribution of this Prospectus, see "*Subscription and Sale*".

The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of the Bonds and on the distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*" below.

Each potential investor in any Bond must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Bonds and the impact such investment will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds; (iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

All references herein to "**pounds**", "**sterling**", "**Sterling**" or "**£**" are to the currency of the United Kingdom.

In connection with the issue of the Bonds, The Royal Bank of Scotland plc (the "Stabilising Manager") (or any person acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail for a limited period. However, there is no assurance that the Stabilising Manager (or persons 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 Bonds 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 Closing Date and 60 days after the date of allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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RISK FACTORS

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

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meaning in this section.

Factors that may affect the Issuer's ability to fulfil its obligations under the Bonds

Regulatory price controls

The Issuer is regulated by the Gas and Electricity Markets Authority for Great Britain ("**GEMA**") which is supported by an administrative body known as the Office of Gas and Electricity Markets ("**Ofgem**"). The Issuer is subject to price controls, set and enforced by Ofgem, that limit the revenue that may be recovered and retained from its electricity distribution activities. Historically, price controls have been reviewed and set by Ofgem every five years but under Ofgem's new "RIIO" model for regulation, price controls are likely to be set for eight years with effect from the next distribution price control period, which commences on 1 April 2015. The Issuer has agreed the price control with Ofgem that covers the period from 1 April 2010 to 31 March 2015. Therefore, unless Ofgem reopens the price control, which the Issuer considers unlikely, there is a high degree of certainty as to the level of revenue permitted by regulation until 31 March 2015.

However, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Issuer to meet its respective payment obligations under the Bonds. There can also be no assurance that net operating revenues generated by the Issuer will be sufficient to meet such payment obligations.

Distribution licence

Failure by the Issuer to comply with the conditions of its distribution licence may lead to Ofgem making an enforcement order and/or imposing a financial penalty. Ofgem has the power to levy penalties of up to 10 per cent. of turnover of the Issuer for any breach of its distribution licence. Enforcement orders and/or financial penalties may also be imposed for breach by the Issuer of certain statutory duties or for failure to achieve a satisfactory performance in relation to

individual standards of performance. While the distribution licence may be terminated immediately in exceptional circumstances, such as in the event of insolvency proceedings, it otherwise continues indefinitely until revoked following no less than 25 years' written notice.

Ofgem has formal powers to propose modifications to each distribution licence. While the Issuer is not currently aware of any planned modification to its distribution licence that could have a material adverse effect on it, there can, however, be no assurance that a restrictive modification will not be introduced in the future which could have an adverse effect on the operations and financial condition of the Issuer.

Health and safety

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive (the "**HSE**"). While the Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees, no assurance can be given that the Issuer will not be subject to HSE action in the future. Any HSE action could adversely affect the Issuer's financial performance and its ability to pay interest and repay principal on the Bonds.

Environmental laws and regulations

The Issuer's activities, including the operation of its distribution network and the distribution of electricity, are potentially dangerous. The Issuer 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 laws and regulations expose the Issuer to costs and liabilities relating to its operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Issuer and sites used for the disposal of its waste. The Issuer commits significant resources towards ensuring compliance with these laws and regulations. Nevertheless, a major environmental impact incident could expose employees, contractors and third parties to the risk of injury, therefore exposing the Issuer to potential liability and/or loss of reputation. In addition, breaches of applicable environmental laws or regulations could expose the Issuer to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable environmental standards and regulations will not increase, and any such increased costs could adversely affect the Issuer's financial performance and its ability to pay interest and repay principal on the Bonds.

Ofgem requirements

The Issuer's activities are regulated by Ofgem. Failure to operate the network properly could lead to compensation payments, financial penalties or loss of incentive revenues under incentive arrangements. Failure to invest capital expenditure in line with agreed programmes could also lead to deterioration of the network and regulatory penalties if specified outputs are not met. While the Issuer's investment programme is targeted to maintain asset condition and meet the prescribed outputs over a five year period and improve customer interruptions and customer minutes lost over the period, no guarantee can be given that these regulatory requirements will be

met. Any failure to meet these regulatory requirements could adversely affect the Issuer's financial position and its ability to pay interest and repay principal on the Bonds.

Network or IT Systems failure or interruption, or damage to infrastructure

The Issuer's business is heavily reliant on information technology ("IT") systems and the network infrastructure. The Issuer 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 failure of information systems and supporting technology. This could cause the Issuer to fail to meet the standards of service with which the Issuer is bound to comply requiring the payment of specific penalties for default, or it could cause the Issuer to be in breach of a licence, approval, regulatory requirement or contractual obligation, which could result in adverse regulatory and financial consequences.

In addition, the Issuer may be affected by other potential events that are largely outside the Issuer's control such as the impact of weather, unlawful or unintentional acts of third parties or force majeure. Terrorist attacks, sabotage or other intentional acts may also damage the Issuer's assets or otherwise significantly affect corporate activities. Whilst the Issuer has in place measures to manage the risk that it sustains an adverse financial impact through inability to carry on its operations and has in place business continuity and IT disaster recovery plans, the risk remains that any failure or interruption could cause the Issuer to fail to meet agreed standards of service or be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences and therefore adversely affect the Issuer's ability to pay interest and repay principal on the Bonds.

Retail prices index movements and cost-base variations

The annual revenues of the Issuer are adjusted by the published Retail Prices Index ("RPI") in the UK. There is therefore a risk that the Issuer's cost base may increase at a faster rate than its revenues due to inflation as measured by the RPI being less than the rate of inflation on components of the Issuer's cost base, even though Ofgem's price control does allow for some cost increases in excess of RPI. If that were to happen, the Issuer's profitability would be reduced and, if the differential between RPI-linked inflation and experienced operating cost inflation was sufficiently large, it could adversely affect the Issuer's business, financial position and results of operations and therefore its ability to pay interest and repay principal on the Bonds.

Financing

The Issuer's financial position could be affected by significant changes in interest rates and financial market conditions. Restrictions imposed by regulators may also limit the manner in which the Issuer services the financial requirements of its business. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if the Issuer were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, the Issuer's cost of financing may increase and the discretionary and uncommitted elements of its proposed capital investment programme may need to be

reconsidered. The occurrence of any such events could have a material adverse impact on the Issuer's business, results of operations and prospects.

Insurance

The Issuer seeks to maintain insurance cover on all its key property and liability exposures to a level consistent with sound business practice, using appropriate insurance products and providers, including self-insurance where applicable. No assurance can be given that the insurance cover acquired by the Issuer provides adequate or sufficient cover for all events or incidents. The insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premia. If events or incidents were to occur which are not covered by the Issuer's insurance and/or adequate insurance were not to be available at commercially acceptable premia, this could adversely affect the financial position of the Issuer and its ability to pay interest and repay principal on the Bonds.

Procurement risk

In order to support its core business activities, it is necessary for the Issuer to purchase significant quantities of resources and enter into contracts for the supply of other products and services. Although the Issuer routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials could have a significant adverse effect on the operations and/or financial position of the Issuer and could adversely affect the Issuer's ability to pay interest and repay principal on the Bonds. Whilst the Issuer receives protection from inflation through its price controls being linked to the RPI, it will be exposed or benefit from any changes relative to inflation, either as a result of commodity prices or issues around supply and demand for plant and equipment or with its contractors. To the extent it purchases equipment from overseas, this exposure would also extend to exchange rate fluctuations.

Pensions

The Issuer is a participating employer in the Northern Electric Group of the Electricity Supply Pension Scheme (the "**ESPS Scheme**"), a defined benefit pension scheme. Further details of the ESPS Scheme are set out in "*Description of the Issuer – Pensions*" below. Low interest rates, the decline in financial markets and changes in demographic factors have produced actuarial deficits that have led to increased cash contributions. Adverse movements in interest rates, financial markets and demographic factors amongst others may lead to higher pensions costs, cash contributions and schemes deficits in the future. The trustees of the ESPS Scheme set the investment strategy appropriate to the risk of the scheme and keep this under review. As part of the electricity regulatory framework in the UK, Ofgem currently allows the majority of cash contributions payable by the Issuer to its pension arrangements to be recovered from customers, including a proportion of the deficit contributions payable to the ESPS Scheme. However, Ofgem has indicated that for price control periods after the end of Distribution Price Control Review 5 ("**DPCR5**") which ends in March 2015, cash contributions payable in respect of new benefit accrual in defined benefit pension schemes along with cash contributions payable to any defined contribution arrangements will be benchmarked as part of total employment costs and will only be funded to the extent that they are deemed to be efficient. In addition, Ofgem plans to carry out regular efficiency reviews of the deficit contributions payable to defined benefit

pension schemes. As a result, if Ofgem deems that any cash contributions have not been efficiently incurred, it may restrict the amount that can be recovered from customers in the future which could adversely affect the Issuer's financial position and its ability to pay interest and repay principal on the Bonds.

Special Administration Regime for electricity distribution network operators ("DNO")

The Energy Act 2004 provides for a special administration regime for the holders of electricity distribution licences. This regime makes provisions for energy administration orders and is designed to ensure the uninterrupted operation of electricity networks essential to secure supply of electricity in the event of actual or threatened insolvency of such a licence holder. The objective of an energy administrator appointed pursuant to an energy administration order is to ensure that a DNO's distribution network is maintained and developed efficiently and economically, and to preserve the DNO as a going concern or to transfer its undertakings as a going concern to one or more other companies. This objective takes precedence over the protection of the respective interests of members and creditors of the DNO and could thus adversely affect the interests of the holders of the Bonds. An application for an energy administration order can only be made by the Secretary of State, or by GEMA with the consent of the Secretary of State. Upon application, a court can only make an energy administration order if it is satisfied that the DNO is or is likely to be unable to pay its debts or that, on a petition from the Secretary of State under the Insolvency Act 1986, it would be just and equitable (aside from the objective of energy administration) to wind up the DNO in the public interest.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Early redemption by the Issuer at its option

The Issuer may, in the limited circumstances set out in Condition 7 of the Terms and Conditions of the Bonds (the "**Terms and Conditions**") and subject to the provisions of that Condition, including as to minimum redemption price, redeem the Bonds prior to their stated maturity date. This early redemption feature may limit the market value of the Bonds. The market value of the Bonds is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Bonds may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Modification and waivers and substitution

The Trust Deed contains provisions for calling meetings of Bondholders (as defined in the Terms and Conditions) to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Trust Deed also provides that, subject to certain exceptions, the Trustee may, without the consent of Bondholders or Couponholders, (i) agree to any modification, waiver or authorisation of any breach, or proposed breach, of the Terms and Conditions or the provisions of the Trust

Deed or (ii) determine that any event, condition or act which would otherwise be an Event of Default, Potential Event of Default or Restructuring Event shall not be treated as such or (iii) agree with the Issuer to the substitution of any wholly-owned subsidiary of the Issuer as principal debtor under the Bonds in place of the Issuer, in the circumstances described in Condition 16 of the Terms and Conditions, provided that, in each case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

Bondholders should be aware that the European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Change of law

The Terms and Conditions are based on English law in effect as at the date of this Prospectus. 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 this Prospectus.

Redemption prior to maturity for tax reasons

If the Issuer were to be obliged to increase the amounts payable in respect of the Bonds due to any change in or amendment to the laws or regulations of the United Kingdom or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the application or official interpretation thereof, the Issuer may redeem all outstanding Bonds in accordance with the Terms and Conditions. It may not be possible for an investor to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds and this may only be possible at a significantly lower rate.

Absence of prior public markets

The Bonds constitute a new issue of securities by the Issuer. Prior to the issue, there will have been no public market for the Bonds. Although an application has been made for the Bonds to be admitted to trading on the Regulated Market of the London Stock Exchange, there can be no assurance that an active public market for the Bonds will develop and, if such a market were to develop, none of the Joint Lead Managers (as defined in "*Subscription and Sale*") and any other person is under any obligation to maintain such a market. The liquidity and the market price of

the Bonds can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and other factors that generally influence the market price of securities.

Interest rate risks

Investment in the Bonds, which are fixed rate obligations, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Credit ratings may not reflect all risks

The Bonds are expected to be rated upon issue A3 by Moody's, A- by S&P and A by Fitch. The ratings assigned to the Bonds may not reflect the potential impact of all risks that may affect the value of the Bonds. 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. Any adverse change in an applicable credit rating could affect the trading price for the Bonds.

Global Bonds held by or on behalf of Euroclear and Clearstream, Luxembourg

The Bonds will be represented by the Temporary Global Bond and/or the Permanent Global Bond (together the "**Global Bonds**") and, except in certain limited circumstances described in the Permanent Global Bond, investors will not be entitled to receive definitive Bonds. The Global Bonds will be delivered to a common depository for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bonds. While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

Holder of beneficial interests in the Global Bonds will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Integral multiples of less than £100,000

Although the Bonds will be admitted to trading on a regulated market within the European Economic Area and will only be issued with a minimum specified denomination of £100,000 it is possible that the Bonds may be traded in the clearing systems in amounts in excess of £100,000 that are not integral multiples of £100,000. In such a case, should Definitive Bonds (as defined below) be required to be issued, holders of the Bonds who, as a result of trading such amounts, hold Bonds in the relevant clearing system in amounts that are not integral multiples of £100,000 may need to purchase or sell, on or before the date of exchange of the Permanent Global Bond

for Definitive Bonds, a principal amount of Bonds such that their holding is equal to or an integral multiple of £100,000, otherwise such Bondholders may not receive all of their entitlements in Definitive Bonds.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditor's report and audited financial statements for the year ended 31 December 2010 (which appear on pages 26 to 57 of the annual report for the year ended 31 December 2010) of the Issuer; and
- (b) the auditor's report and audited financial statements for the year ended 31 December 2011 (which appear on pages 25 to 54 of the annual report for the year ended 31 December 2011) of the Issuer.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any information contained in any of the documents specified above which is not expressly incorporated by references in this Prospectus does not form part of this Prospectus and is either not relevant to investors or is covered elsewhere in this Prospectus. Any information contained in any website referred to in any of the documents specified above does not form part of this Prospectus.

Copies of the documents incorporated by reference in this Prospectus can be obtained (without charge) from the registered office of the Issuer and the specified office of the Paying Agent for the time being in London.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the terms and conditions of the Bonds which, subject to amendment, will be endorsed on each definitive Bond. Bonds in definitive form will only be issued in certain limited circumstances. For a summary of the provisions relating to the Bonds in global form, see "Summary of provisions relating to the Bonds in global form" below.

The £150,000,000 4.375 per cent. Bonds due 2032 (the "**Bonds**", which expression shall, unless the context otherwise requires, include any Further Bonds (as defined in Condition 3 (*Definitions*)) of Northern Powergrid (Yorkshire) plc (the "**Issuer**") are constituted by and subject to a trust deed dated 5 July 2012 (as the same may be amended and/or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the "**Trustee**", which expression shall, wherever the context so admits, include its successors as trustee under the Trust Deed) as trustee for the holders of the Bonds (the "**Bondholders**"). The statements in these Terms and Conditions include summaries of and are subject to, the detailed provisions of the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement dated 5 July 2012 (the "**Paying Agency Agreement**") between the Issuer, HSBC Bank plc (the "**Principal Paying Agent**") and any paying agent appointed thereunder (each a "**Paying Agent**" and together with the Principal Paying Agent, the "**Paying Agents**") and the Trustee will be available for inspection by Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "**Couponholders**" and the "**Coupons**") at the specified office(s) of each of the Paying Agents. The Bondholders and 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 the provisions of the Paying Agency Agreement applicable to them.

1. **Form, Denomination and Title**

The Bonds 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 attached on issue. No definitive Bonds will be issued with a denomination above £199,000. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of the other denomination. The holder of any Bond or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder. No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. **Status**

The Bonds and Coupons constitute direct, unconditional and (subject to the provisions of Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall, subject as aforesaid and save for such obligations as may be preferred by laws that are mandatory or of general application, at

all times rank at least equally with all its present and future unsecured and unsubordinated obligations.

3. **Definitions**

"**Business Day**" means any day (other than a Saturday or Sunday) on which banks and other financial institutions are open for business in London.

"**Cash Equivalents**" means investments in sterling demand or time deposits, UK Government Stock, certificates of deposit and short term debt obligations (including commercial paper), synthetic sterling deposits, shares in money market liquidity funds and guaranteed investment contracts, *provided that* in all cases such investments have a maturity of no longer than nine months from the date of their acquisition.

"**Distribution**" means any dividend, distribution or payment (including by way of redemption, repurchase, retirement, return or repayment) in respect of the share capital of the Issuer.

"**Companies Act**" means the Companies Act 2006 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

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

"**Electricity Distribution Licence**" means the electricity distribution licence granted or treated as granted to the Issuer under section 6(1)(c) of the Electricity Act.

"**Energy Act**" means the Energy Act 2004 as amended or re-enacted from time to time and all subordinate legislation made pursuant thereto.

"**Energy Administrator**" means an energy administrator appointed pursuant to Part 3 of the Energy Act.

"**Event of Default**" means any of the events set out in Condition 10 (*Events of Default*).

"**Final Proposals**" means the final proposals document published by Ofgem for each electricity distribution price control review.

"**Financial Indebtedness**" means, at any time, the outstanding principal, capital or nominal amount and any fixed or minimum premium payable on prepayment or redemption of any indebtedness for or in respect of:

- (i) moneys borrowed and debit balances with financial institutions;
- (ii) any amount raised by acceptance under any acceptance credit facility;
- (iii) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

- (iv) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with IFRS, be treated as a finance or capital lease;
- (v) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (vi) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution (excluding any given in respect of trade credit arising in the ordinary course of business);
- (vii) any amount raised by the issue of redeemable shares which are redeemable prior to 5 July 2032;
- (viii) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing; and
- (ix) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (i) to (viii) above.

"**Fitch**" means Fitch Ratings Limited.

"**Further Bonds**" means all further bonds created and issued by the Issuer in accordance with Condition 17 (*Further Bonds*) and/or for the time being outstanding or, as the context may require, a specific proportion thereof.

"**IFRS**" means the international accounting standards within the meaning of the IAS Regulation 1606/2002.

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

"**Investment Grade Rating**" means a credit rating assigned by a Rating Agency of BBB- (in the case of such ratings assigned by S&P and/or Fitch) or Baa3 (in the case of such ratings assigned by Moody's) or the equivalents of such ratings for the time being, or better.

"**Issue Date**" means 5 July 2012.

"**Moody's**" means Moody's Investors Service Limited.

A "**Negative Rating Event**" shall be deemed to have occurred if (i) the Issuer does not, either prior to or no later than 14 days after the date of a Negative Certification (as

defined in Condition 11 (*Restructuring Event*)) in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, from a Rating Agency, a rating of the Reference Rated Securities or these Bonds or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more or (ii) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating which is an Investment Grade Rating.

"**Ofgem**" means the Gas and Electricity Markets Authority and/or the Office of Gas and Electricity Markets, including their successor office or body, as appropriate.

"**Potential Event of Default**" means an event or circumstance which would with the giving of notice and/or lapse of time and/or the issuing of a certificate become an Event of Default.

A "**Put Event**" occurs on the date of the last to occur of (i) a Restructuring Event, (ii) either a Rating Downgrade or, as the case may be, a Negative Rating Event, and (iii) the relevant Negative Certification.

"**Rating Agencies**" means S&P, Moody's and Fitch, and "**Rating Agency**" means any one of them.

A "**Rating Downgrade**" shall be deemed to have occurred if the then current rating assigned to any Reference Rated Securities by two out of three Rating Agencies (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an Investment Grade Rating to a non-Investment Grade Rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if two out of three Rating Agencies shall then have already assigned a non-Investment Grade Rating (as described above) to the Reference Rated Securities, both such ratings are lowered one full rating category.

"**Reference Gilt**" means the 4.25 per cent. Treasury Stock due June 2032 or such other conventional (i.e. not index linked) UK Government Stock as the Issuer (with the advice of an independent financial institution of international repute appointed by the Issuer) may determine to be the most appropriate benchmark conventional UK Government Stock.

"**Reference Rated Securities**" means the Bonds for so long as they have a rating from two or more Rating Agencies, and otherwise any other unsecured and unsubordinated debt securities of the Issuer having an initial maturity of five years or more which are rated by two or more Rating Agencies.

"**Regulated Asset Value**" or "**RAV**" means the regulatory asset value of the Issuer, as set out in the most recent Final Proposals, adjusted for inflation, as of the 31 March nearest to the date on which the Issuer proposes to make any Distribution or other relevant date, *provided that* if at any time Ofgem alters its methodology of determining RAV in a manner which results in a change in RAV, appropriate adjustments to this definition (and to other terms defined or described herein solely for the purposes of this definition) so as to preserve the original intent of Conditions 4(b) (*Restriction on Distributions*) and 10(c)

(*Events of Default*) shall be determined by an independent accountant experienced in the regulated electricity distribution market selected by the Issuer.

"**Relevant Indebtedness**" means any indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market.

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

- (i) (a) written notice being given to the Issuer of revocation of its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time or (b) the Issuer agreeing in writing to any revocation or surrender of its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time or (c) any legislation (whether primary or subordinate) being enacted terminating or revoking its Electricity Distribution Licence which is requisite to the conduct of the Issuer's business at the relevant time, except in any such case in circumstances where a licence or licences is or are granted to the Issuer or a Subsidiary of the Issuer 100 per cent. of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**Relevant Transferee**") and *provided that* the terms of such licence or licences are substantially no less favourable than the Electricity Distribution Licence in which event all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as holder of the Electricity Distribution Licence shall hereafter be deemed to be references to the licence or licences on substantially no less favourable terms and the Relevant Transferee respectively; or
- (ii) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the Electricity Distribution Licence on or after the Issue Date unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that the modified terms and conditions are not materially less favourable to the business of the Issuer. For the purposes of this paragraph (ii) a modification which (a) results in a licence or licences being granted to the Issuer or a Subsidiary of the Issuer 100 per cent. of the ordinary share capital of which is owned directly or indirectly by the Issuer (collectively, the "**Applicable Transferees**") and *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence or (b) results in a licence or licences being granted to an Applicable Transferee *provided that* the terms of such licence or licences are substantially no less favourable than the terms of the Electricity Distribution Licence, shall not be deemed to be a modification within this paragraph (ii). In the event of such a modification as is referred to in (a) or (b), all references in these Terms and Conditions to the Electricity Distribution Licence and the Issuer in its capacity as

holder of the Electricity Distribution Licence shall thereafter be deemed to be references to the licence or licences granted to the Applicable Transferee and to the Applicable Transferee, respectively; or

- (iii) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State (or any successor) and/or Ofgem under the Electricity Act as in force on the Issue Date, unless two Directors of the Issuer have certified in good faith to the Trustee (and the Trustee may rely absolutely on such certification) that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer.

"Restructuring Period" means:

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

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Security Interest" means a mortgage, charge, lien, pledge or other security interest.

"Senior Total Net Debt" means, at any time, the aggregate amount of all obligations of the Issuer for or in respect of Financial Indebtedness which ranks at least *pari passu* with the Bonds but deducting the aggregate amount of freely available cash and Cash Equivalents held by the Issuer or any of its Subsidiaries at such time, and so that no amount shall be included or excluded more than once.

"Subsidiary" means a subsidiary or subsidiary undertaking within the meaning of the Companies Act.

4. **Negative Pledge and Restriction on Distributions**

- (a) *Negative Pledge*

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will ensure that none of its Relevant Indebtedness or the Relevant

Indebtedness of any of its Subsidiaries nor any guarantee given by it or by any of its Subsidiaries of the Relevant Indebtedness of any other person will be secured by a Security Interest upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any of its Subsidiaries unless the Issuer shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

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

(b) *Restriction on Distributions*

So long as the Bonds remain outstanding, the Issuer will not make any Distribution unless Senior Total Net Debt (as at the end of the month immediately preceding the date on which the Distribution is to be made and calculated on a pro forma basis as if the Distribution had been made) does not exceed 85 per cent. of RAV.

5. **Interest**

The Bonds bear interest from (and including) the Issue Date at the rate of 4.375 per cent. per annum payable annually in arrear on 5 July in each year (each, an "**Interest Payment Date**"). Each Bond will cease to bear interest from the due date for redemption thereof, unless upon due presentation, payment of principal or premium (if any) is improperly withheld or refused. In such event, each Bond shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder and (ii) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders in accordance with Condition 14 (*Notices*) of receipt of all sums then due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holder under these Terms and Conditions). In these Conditions, the period beginning on and including 5 July 2012 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 is called an "**Interest Period**". Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period the day-count fraction used will be the number of days in the relevant

period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last). Interest in respect of each £1,000 in principal amount of the Bonds (the "**Calculation Amount**") for any period shall be equal to the product of 4.375 per cent., the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest pence (half a pence being rounded upwards).

6. **Payments**

Payments of principal, premium (if any) or interest in respect of the Bonds will be made against surrender of Bonds or, in the case of payments of interest due on an Interest Payment Date, against surrender of Coupons, at the specified office of any Paying Agent by a sterling cheque drawn on, or at the option of the holder, by transfer to a sterling account maintained by the payee with a branch of a bank in the City of London, subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).

Upon the due date for redemption of any Bond, all unmatured Coupons relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Bond 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.

If the due date for redemption of any Bond is not 5 July in any year, interest accrued in respect of such Bond from (and including) the last preceding 5 July will be paid only against presentation and surrender of such Bond.

If the due date for payment of any amount in respect of any Bond or Coupon is not a business day, then the holder thereof shall not be entitled to payment of the amount due until the next following business day nor to any further interest or other payment in respect of such delay. The expression "**business day**" in this Condition means a day other than a Saturday or Sunday on which banks are open for business in the place where the Bond or Coupon is presented and, in the case of payment by transfer to a sterling account as referred to above, in the City of London.

The names of the initial Principal Paying Agent and the other initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written 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 will at all times maintain (a) a principal paying agent, and (b) a Paying Agent (which may be the Principal Paying Agent) with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC. Notice of any such termination or appointment and of any changes in the specified offices of the Paying Agents will be given to the Bondholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter. Under no circumstances will interest be

payable in the United States of America or any possession of the United States of America.

7. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Issuer will redeem the Bonds on 5 July 2032 at their outstanding principal amount.
- (b) *Redemption at the option of the Issuer*. The Issuer may, having given not less than 30 nor more than 45 days' notice in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem the whole or part (in principal amount of £5,000,000 or integral multiples thereof) of the Bonds at any time prior to 5 July 2032 at a price which shall be the higher of the following (the "**Redemption Price**"), together with interest accrued up to and including the date of redemption:
 - (i) par; and
 - (ii) that price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the Gross Real Redemption Yield (calculated as described below) on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the Gross Real Redemption Yield on such dealing day of the Reference Gilt, on the basis of the middle market price of the Reference Gilt prevailing at 11:00 a.m. on such dealing day, as determined by The Royal Bank of Scotland plc (or such other investment bank of international repute as the Trustee may approve).

Any reference in these Terms and Conditions to principal shall be deemed to include any sum payable as the Redemption Price.

Notices of redemption will specify the date fixed for redemption, the applicable Redemption Price and, in the case of partial redemption, the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of the Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds to remain outstanding after the redemption. No such notice of redemption may be given by the Issuer unless it shall have presented to the Trustee a certificate signed by two Directors of the Issuer (upon which the Trustee may rely absolutely) that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at the Redemption Price plus accrued interest on the date specified for redemption. Upon the expiry of any notice of redemption the Issuer shall be bound to redeem the Bonds called for redemption at the applicable Redemption Price. Any partial redemption of the Bonds shall be on the basis of selection by drawings (the method of such drawings to be approved by the Trustee in its absolute discretion).

"Gross Real Redemption Yield" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for calculating Gilt Prices from Yields" published on 8 June 1998 with effect from 1 November 1998, page 5 and updated on 15 January 2002 and 16 March 2005 and as further updated or amended from time to time.

- (c) *Redemption for tax reasons.* If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 2 July 2012, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall accept such certificate as sufficient evidence thereof) of a certificate signed by two Directors of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it) the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), redeem all the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 7(b) (*Redemption at the option of the Issuer*) prior to any notice being given under this Condition 7(c)), but not some only, at their outstanding principal amount together with interest accrued to (but excluding) the date of redemption, *provided that* no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay the additional amounts were a payment in respect of the Bonds then due and *provided further that* no notice of redemption may be given by the Issuer unless two Directors of the Issuer shall have certified to the Trustee that it will have the funds, not subject to the interest of any other person, required to redeem the Bonds at their principal amounts outstanding plus accrued interest on the date specified for redemption (the Trustee being able to rely on such certificate absolutely).
- (d) *Purchase,* The Issuer may at any time purchase or otherwise acquire Bonds (provided that all unmatured Coupons are attached thereto or are surrendered therewith) at any price in the open market or otherwise.
- (e) *Cancellation:* All Bonds which are redeemed pursuant to this Condition by the Issuer shall be cancelled (together with all relative unmatured Coupons attached thereto or surrendered therewith) and accordingly may not be reissued or resold. Bonds purchased by or on behalf of the Issuer may be held or reissued or resold or surrendered for cancellation.

8. Taxation

- (a) All payments in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom, or any political subdivision of, or authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:
- (i) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
 - (iii) 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a member state of the European Union; or
 - (v) presented for payment more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days.
- (b) In these Terms and Conditions, "**Relevant Date**" means the date on which the payment first becomes due, but if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14 (*Notices*).

- (c) Any reference in these Terms and Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition 8 pursuant to the Trust Deed.

9. **Prescription**

Bonds and Coupons will become void unless presented for payment within periods of ten years and five years, respectively, from the Relevant Date for payment in respect thereof, subject to the provisions of Condition 6 (*Payments*).

10. **Events of Default**

If:

- (a) default is made in the payment of any principal or premium (if any) in respect of any Bond pursuant to Condition 7 (*Redemption and Purchase*), or for a period of 14 days or more in the payment of any interest due in respect of the Bonds; or
- (b) the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) (i) any other Indebtedness For Borrowed Money of the Issuer or any of its Subsidiaries becomes due and repayable prior to its stated maturity by reason of an event of default (however described) or (ii) any such Indebtedness For Borrowed Money is not paid when due or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Indebtedness For Borrowed Money of any person or (iv) any security given by the Issuer or any of its Subsidiaries for any Indebtedness For Borrowed Money of any person or any guarantee or indemnity of Indebtedness For Borrowed Money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case referred to in (i), (ii), (iii) or (iv) where there is a *bona fide* dispute as to whether the relevant Indebtedness For Borrowed Money or any such guarantee or indemnity as aforesaid shall be due and payable, and *provided that* the aggregate amount of the relevant Indebtedness For Borrowed Money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds 5 per cent. of RAV and such event shall continue unremedied or unwaived for more than 14 days (or such longer grace period as may have been originally provided in the applicable instrument) and the time for payment of such amount has not been

expressly extended (until such time as any payment default is remedied, cured or waived); or

- (d) any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved by an Extraordinary Resolution of the Bondholders; or
- (e) the Issuer or any of its Subsidiaries shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other arrangement (i) not involving or arising out of the insolvency of the Issuer or any Subsidiary and under which all or substantially all of its assets are transferred to a Subsidiary of the Issuer or to a transferee which is, or immediately upon such transfer becomes a Subsidiary or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether a Subsidiary or Subsidiaries of the Issuer or not) for full consideration by the Issuer or a Subsidiary on an arm's length basis or (iii) the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders *provided that* if the Issuer shall cease to hold or shall transfer the Electricity Distribution Licence (other than where the Electricity Distribution Licence is revoked, terminated or surrendered in the circumstances envisaged by paragraph (i)(a), (b) or (c) of the definition of Restructuring Event in Condition 3 (*Definitions*) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to paragraph (i) of such definition) the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) above shall apply) unless the transferee of the Electricity Distribution Licence is the Issuer or a Subsidiary of the Issuer, at least 51 per cent. of the ordinary share capital of which is owned directly or indirectly by the Issuer (the "**YE Transferee**") and in such event all references in these Terms and Conditions to the Issuer in its capacity as holder of the Electricity Distribution Licence shall hereafter be deemed to be references to the YE Transferee; or
- (f) the Issuer or any Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Part I of the Insolvency Act 1986; or
- (g) a receiver, administrative receiver, Energy Administrator, administrator or other similar official shall be appointed in relation to the Issuer or any Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or

sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 120 days (or such longer period as the Trustee may in its absolute discretion permit);

and, in the case of sub-paragraphs (b), (c) and (e) to (g) (inclusive) the Trustee shall have certified in writing that the relevant event is in its opinion materially prejudicial to the interests of the Bondholders, the Trustee may at its discretion (and the Trustee shall on the request in writing of the holders of at least one quarter in principal amount of the Bonds then outstanding or upon being so directed by an Extraordinary Resolution of the Bondholders), by notice in writing to the Issuer declare that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed), *provided always that* the giving of any notice in relation to any Event of Default shall not operate as a waiver of any of the Trustee's rights (including the right to give a further notice) or prevent the Trustee from giving a further notice in the manner referred to above in relation to that Event of Default at any time thereafter.

So long as any of the Bonds remain outstanding the Issuer will, forthwith upon becoming aware of any Event of Default or Potential Event of Default, give notice in writing thereof to the Trustee.

For the purpose of sub-paragraph (f) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as Ofgem may from time to time determine by notice in writing to the Issuer for the purposes of Schedule 2 (Revocation) of its Electricity Distribution Licence.

Neither the Issuer nor any Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (f) above if any such demand as is mentioned in Section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer or the relevant Subsidiary with recourse to all appropriate measures and procedures.

11. **Restructuring Event**

(a)

(i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and during the Restructuring Period an Independent Financial Adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition shall cease to have any further effect in relation to such Restructuring Event.

(ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to paragraph (a)(i) above):

(1) within the Restructuring Period, either:

- (A) if at the time such Restructuring Event occurs there are Reference Rated Securities, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (B) if at such time there are not Reference Rated Securities, a Negative Rating Event in respect of such Restructuring Event also occurs; and
- (2) an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a "**Negative Certification**"),

then, unless at any time the Issuer shall have given a notice under Condition 7(b) (*Redemption at the option of the Issuer*) or Condition 7(c) (*Redemption for tax reasons*), in each case expiring prior to the Put Date (as defined below), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the "**Put Option**") to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

Notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, no Bondholder shall be entitled to exercise the Put Option and to serve a Put Notice if the rating assigned to the Reference Rated Securities or these Bonds by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Reference Rated Securities or these Bonds by any Rating Agency an Investment Grade Rating or, in the event that the rating assigned to the Reference Rated Securities immediately prior to the occurrence of the Rating Downgrade or Negative Rating Event was not an Investment Grade Rating, if such rating is restored, in either case prior to any Negative Certification being issued.

Any certification by an Independent Financial Adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interest of the Bondholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders. For the purposes of this Condition, an "**Independent Financial Adviser**" means a financial adviser appointed by the Issuer and approved by the Trustee or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, appointed by the Trustee.

A Rating Downgrade or a Negative Rating Event or a non-Investment Grade Rating shall be deemed not to have occurred as a result of or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating

or, where applicable, declining to assign an Investment Grade Rating as provided in this Condition does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event, a Rating Downgrade or any event which could lead to the occurrence of or could constitute a Restructuring Event, a Negative Rating Event or a Rating Downgrade 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 Restructuring Event, Negative Rating Event, Rating Downgrade or other such event has occurred.

- (b) Promptly upon the Issuer becoming aware that a Put Event (as defined in Condition 3 (*Definitions*)) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and (subject to it being indemnified and/or prefunded and/or secured to its satisfaction) if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "**Put Event Notice**") to the Bondholders in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a business day (as defined in Condition 6 (*Payments*)) in London and in the place of such specified office falling within the period (the "**Put Period**") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Notice**") and in which the holder may specify a bank account complying with the requirements of Condition 6 (*Payments*) to which payment is to be made under this Condition. Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "**Put Date**") being the fifteenth day after the date of expiry of the Put Period, failing which any such missing Coupon will become void and no payment shall be made in respect of it. The Paying Agent to which such Bond and Put Notices are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made on the Put Date, by transfer to that bank account and, in every other case, on or after the Put Date, in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 6 (*Payments*). A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 9 (*Prescription*), 10 (*Events of Default*), 12 (*Enforcement*), 13

(*Replacement of Bonds and Coupons*) and 15 (*Meetings of Bondholders, Modification and Waiver*) receipts issued pursuant to this Condition shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.

12. **Enforcement**

- (a) *Limitation on Bondholders*: Only the Trustee may pursue the remedies available under general law or under the Trust Deed to enforce the rights of the Bondholders and Couponholders and no such holder will be entitled to proceed against the Issuer unless the Trustee, having become bound to act in accordance with the terms of the Trust Deed, fails to do so and such failure is continuing.
- (b) *Enforcement Proceedings*: At any time after amounts in respect of principal of and interest on the Bonds shall have become due and payable but are unpaid, the Trustee may, at its discretion, and without further notice but subject as mentioned below, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed in accordance with the terms thereof.

The Trustee shall only be bound to take proceedings pursuant to this Condition 12(b) if it has been indemnified and/or prefunded and/or secured to its satisfaction by the Bondholders and if it has been so requested in writing by the holders of not less than 25 per cent. of the principal amount outstanding (as defined in the Trust Deed) of the Bonds or has been so directed by an Extraordinary Resolution (as defined in the Trust Deed)).

13. **Replacement of Bonds and Coupons**

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may, subject to all applicable laws and stock exchange requirements, be replaced at the specified office of the Principal Paying Agent (or such other Paying Agent as may be approved by the Trustee for such purpose) upon payment by the claimant of the expenses, taxes and duties incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. **Notices**

All notices to Bondholders shall be valid if published in a leading English language national daily newspaper (which is expected to be the *Financial Times*) or, if this is not practicable, in a leading English language daily newspaper with a circulation in Europe. Such notices shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first such publication. If publication is not practicable, notice shall be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

15. **Meetings of Bondholders, Modification and Waiver**

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing more than half in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that, at any meeting the business of which includes the modification of certain of these Terms and Conditions and certain of the provisions of the Trust Deed (including altering the currency of payment of the Bonds or Coupons), the necessary quorum for passing an Extraordinary Resolution will 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 Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders shall be binding on all Bondholders, whether or not they are present or represented at the meeting, and on all Couponholders.
- (b) The Trustee may, without the consent of the Bondholders or Couponholders, agree (i) other than in respect of the matters detailed in the proviso to paragraph 17 of Schedule 5 to the Trust Deed, to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or to any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or of any of the provisions of the Trust Deed or determine that any event, condition or act which would otherwise be an Event of Default, Potential Event of Default or Restructuring Event shall not be so treated provided that, in the opinion of the Trustee, so to do would not be materially prejudicial to the interests of the Bondholders, and provided further that the Trustee will not do so in contravention of any express direction given by any Extraordinary Resolution or a written request made pursuant to Condition 10 (*Events of Default*) but no such direction or request will affect any previous waiver, authorisation or determination, or (ii) to any modification to these Terms and Conditions or to any of the provisions of the Trust Deed which is made to correct a manifest error or which is of a formal, minor or technical nature.
- (c) In connection with the exercise of its trusts, powers, authorities or discretions (including, but not limited to, any modification, waiver, authorisation or substitution) the Trustee shall have regard to the interests of Bondholders as a class and, in particular, but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the

jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders, except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

- (d) Any modification to these Terms and Conditions or to any of the provisions of the Trust Deed or any waiver or authorisation of any breach or proposed breach by the Issuer of these Terms and Conditions or any of the provisions of the Trust Deed shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

16. **Substitution**

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution of any wholly-owned Subsidiary of the Issuer in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed, subject to the Trustee being of the opinion that the interests of the Bondholders will not be materially prejudiced thereby and certain other conditions set out in the Trust Deed being complied with.

17. **Further Bonds**

- (a) Subject as mentioned below, power will be reserved to the Issuer to create and issue Further Bonds forming (or so as to form after the first payment of interest thereon) a single series with the Bonds *provided that*:
 - (i) the Trustee is satisfied that the rating granted in respect of the Bonds by S&P, Moody's and Fitch will not thereby be adversely affected; and
 - (ii) such issue shall be constituted by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).
- (b) The Issuer shall not be entitled to exercise the power reserved in this Condition 17 (*Further Bonds*) while any default exists in relation to any payment by the Issuer of any amounts due under the Trust Deed.

18. **Trustee**

The Trust Deed contains provisions governing the responsibility of the Trustee and providing for its indemnification and relief from responsibility in certain circumstances, (including provisions relieving it from taking proceedings against the Issuer unless indemnified and/or secured and/or prefunded to its satisfaction) and to be paid its costs and expenses in priority to the claims of the Bondholders. The Trustee may not resign its

appointment unless a successor, willing to act in such capacity, has been appointed by the Issuer and the Bondholders by Extraordinary Resolution, *provided that* the Trustee shall not be prevented from resigning its appointment if, having given notice in writing to the Issuer of its intention to so resign its appointment, a successor is not appointed within the period of three months from the date of such notice.

19. **Governing Law**

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

There will appear at the foot of the Terms and Conditions endorsed on each Bond in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will initially be in the form of the Temporary Global Bond which will be deposited on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. The Temporary Global Bond will be exchangeable in whole or in part for interests in the Permanent Global Bond not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Bond will become exchangeable in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**") at the request of the bearer of the Permanent Global Bond against presentation and surrender of the Permanent Global Bond to the Principal Paying Agent if any of the following events (each, an "**Exchange Event**") occurs: (a) an Event of Default, or (b) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business, or (c) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or of any political sub-division of, or any authority in, the United Kingdom having power to tax or any change in the application or official interpretation of such laws or regulations which becomes effective on or after 2 July 2012, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Bonds which would not be required if the Bonds were in definitive form.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Bond and the Permanent Global Bond will contain provisions which modify the Terms and Conditions as they apply to the Temporary Global Bond and the Permanent Global Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Bond and the Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Bond or (as the case may be) the Permanent Global Bond at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Bond or (as the case may be) the Permanent Global Bond, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 11 (*Restructuring Event*) the bearer of the Permanent Global Bond must, within the period

specified in the Conditions for the deposit of the relevant Bond and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Bonds in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 7(b) (*Redemption at the option of the Issuer*) in relation to some only of the Bonds, the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Terms and Conditions and the Bonds to be redeemed will not be selected as provided in the Terms and Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg. Those rules and procedures provide that a partial redemption will be reflected in the records of Euroclear and Clearstream Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Bonds are represented by the Permanent Global Bond (or by the Permanent Global Bond and/or the Temporary Global Bond) and the Permanent Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Quorum: So long as the outstanding Bonds are represented by the Temporary Global Bond and/or the Permanent Global Bond, a single voter appointed in relation thereto or being the holder of the Bonds represented thereby shall be deemed to be two voters for the purpose of forming a quorum.

USE OF PROCEEDS

The net proceeds from the issue of Bonds will be used by the Issuer for general corporate purposes.

NORTHERN POWERGRID (YORKSHIRE) PLC
DESCRIPTION OF THE ISSUER

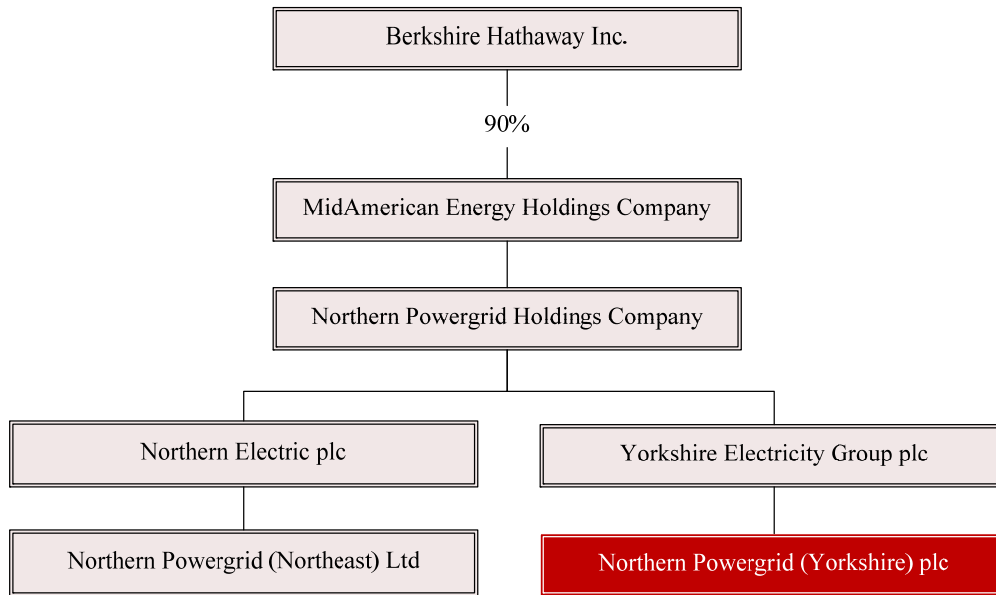
Background

The Issuer was incorporated on 22 November 2000 as a limited company with registered number 04112320. The registered office of the Issuer is at Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF and its telephone number is +44 (0) 191 223 5151. The Issuer changed its name from Yorkshire Electricity Distribution plc to Northern Powergrid (Yorkshire) plc with effect from 31 October 2011.

The Issuer is a wholly-owned subsidiary of Yorkshire Electricity Group plc, and is an indirect wholly-owned subsidiary of Northern Powergrid Holdings Company ("**Northern Powergrid**"). Northern Powergrid was formerly known as CE Electric UK Funding Company. The Issuer's ultimate parent company is Berkshire Hathaway, Inc. a company incorporated in the United States of America.

Northern Powergrid also indirectly wholly-owns the share capital of Northern Powergrid (Northeast) Limited ("**Northern Powergrid (Northeast)**"), which is also a regulated electricity distribution network operator ("**DNO**"). The Issuer and Northern Powergrid (Northeast) operate together as a single commercial entity under the brand "Northern Powergrid". As required by Ofgem (as defined below) in its regulation of DNOs, the Issuer and Northern Powergrid (Northeast) are separate legal entities, which are subject to financial ring-fencing and which hold separate distribution licences. The Issuer and Northern Powergrid (Northeast) are separately assessed by Ofgem and undergo separate distribution price control review processes. The Issuer and Northern Powergrid (Northeast) are operated on a combined and integrated basis through a single operational management structure. The costs of shared services, employees and operations are allocated back to the Issuer and Northern Powergrid (Northeast) as appropriate.

The table below is a summary of the organisational structure showing certain holding companies and affiliated companies of the Issuer in the Northern Powergrid regulated business. Certain intermediate holding companies and affiliates of the Issuer carrying out non-regulated activities, such as engineering contracting and gas exploration, are not included.



Distribution Business

The Issuer is one of the 14 DNOs in England, Wales and Scotland. It serves an area of approximately 10,700 sq. km encompassing the counties of West Yorkshire, East Yorkshire and almost all of South Yorkshire, together with parts of North Yorkshire, Derbyshire, Nottinghamshire, Lincolnshire and Lancashire. It receives electricity from National Grid's transmission system and distributes it on behalf of the suppliers to approximately 2.3 million customers connected to its electricity distribution network of transformers, switchgear and overhead and underground cables, at voltages of up to 132kV.

The Issuer holds an electricity distribution licence granted by the Secretary of State under the Electricity Act 1989 authorising it to distribute electricity for the purpose of supply to premises. The Issuer is regulated by GEMA, which is supported by an administrative body known as Ofgem.

Issuer Distribution Service Area Map



Regulatory Framework

The 14 licensed DNOs distribute electricity from National Grid Electricity Transmission's electricity transmission system to end users within their respective distribution service areas.

DNOs are subject to price controls, set and enforced by Ofgem, that limit the revenue that may be recovered and retained from their electricity distribution activities. The regulatory regime that has been applied to DNOs encourages companies to look for efficiency gains in order to improve profits.

The distribution price control formula adjusts the revenue cap by reference to the rate of inflation as measured by RPI and other factors including (among other things) the quality of service delivered by the DNO's distribution system and system losses, i.e. the difference between the number of units entering and the number of units leaving the DNO's system. The price control formula has been, and may be, reviewed at Ofgem's discretion. Currently, price controls are reviewed and set every five years. The procedure and methodology adopted at a price control review are at the reasonable discretion of Ofgem. Historically, Ofgem's judgment of the future allowed revenue of DNOs has been based upon, among other things:

- actual operating costs;
- pension deficit payments;
- operating costs that each of the DNOs would incur if it were as efficient as the DNO that is, in Ofgem's judgment, the most efficient DNO;

- expected taxes;
- RAV;
- rate of return to be allowed on investment in distribution network assets; and
- financial ratios and the licence requirement to maintain investment grade status, in the light of Ofgem's statutory duty to have regard to the financeability of DNOs.

The current electricity distribution price control review became effective on 1 April 2010 and is expected to continue until 31 March 2015. A resetting of the price control formula can now be made by GEMA without the consent of the DNO, but if a DNO disputes the determination it may appeal to the Competition Commission on various grounds. Certain other interested parties also have the same right. The Issuer agreed to Ofgem's proposals for the resetting of the formula that commenced on 1 April 2010.

The most recent price control review conducted by Ofgem led to an increase in allowed revenue for the Issuer. As a result, excluding the effects of incentive schemes, it has been determined that the base allowed revenue of the Issuer will increase by approximately 6.5 per cent. plus inflation (as measured by the RPI) in each of the five consecutive regulatory years that commenced on 1 April 2010.

Under the new RIIO (revenue = incentives + innovation + outputs) model for regulation that emerged in 2010 from Ofgem's review of energy-network regulatory arrangements, price controls will likely be set for eight years rather than five as at present, with provision for a mid-period review of the outputs that network companies are required to deliver, and there will be increased involvement for stakeholders.

The first electricity distribution price control review under the RIIO framework (known as RIIO-ED1) will set revenues for the period commencing 1 April 2015. Some of the parameters for this framework have already been applied in the price control reviews for gas distribution and electricity and gas transmission companies and Ofgem is currently working with industry participants on the framework for electricity distribution.

The price control formula determines the maximum revenue that the DNO is entitled to charge, but it is for the DNO to develop a charging regime to be approved by Ofgem that reasonably recovers the allowed revenue from customers. Historically, the methodologies behind these tariffs have been a matter for each company individually, but Ofgem has implemented licence conditions that compel DNOs to work together and set their respective tariffs based upon a common methodology. Ofgem is currently consulting on implementing further licence amendments that (among other things) would allow third parties to propose changes to this common methodology.

DNOs must also meet guaranteed standards of performance, which are set by Ofgem to ensure an appropriate level of quality of supply and service. If a DNO fails to provide the level of service specified, it must make a fixed payment to the end user affected. The aggregate of these guaranteed standards payments is uncapped, but may be excused in certain prescribed circumstances that are generally beyond the control of the DNO.

Ofgem monitors compliance by DNOs with their licence conditions, which not only impose price controls and regulate matters such as terms of service, financial ring-fencing, minimum financial strength of the DNO and the provision of information to both Ofgem and the public, but also require maintenance of transparency and non-discrimination and avoidance of cross-subsidy in relation to DNOs' regulated activities. Ofgem also monitors and enforces DNO compliance with certain statutory duties applicable to DNOs, including the duty to develop and maintain an efficient, coordinated and economical system of electricity distribution.

Ofgem is able to issue enforcement orders to and/or impose financial penalties on DNOs that contravene any licence condition, fail to fulfil any of certain statutory duties under the Electricity Act 1989 (as amended) or fail to achieve a satisfactory performance in relation to the individual standards of performance. Any penalty imposed must be reasonable and may not exceed 10 per cent. of the DNO's turnover. In certain circumstances, i.e. insolvency, the distribution licence itself may be revoked.

Capital Expenditure

The net capital expenditure (after deducting capital contributions received from customers) assumed by Ofgem for the Issuer during the current distribution price control review period ending on 31 March 2015 was published by Ofgem in its Final Proposals in December 2009 and is shown in the following table:

Year to March (£m) (unaudited)					
	2011	2012	2013	2014	2015
2007/08 prices	148	152	149	152	158

Ofgem's published numbers are expressed in 2007/08 prices and are subject to escalation for inflation from that date.

These estimates of capital expenditure and an allowance for depreciation were included in Ofgem's calculation of RAV.

RAV

The latest Issuer RAV numbers for the current distribution price control review period ending on 31 March 2015 were published by Ofgem in its Final Proposals in December 2009 and are shown in the following table:

Year to March (£m) (unaudited)					
	2011	2012	2013	2014	2015
2007/08 prices	1,112	1,164	1,208	1,251	1,296
Indexation factor	232.2	240.8	246.8	253.0	259.3
Nominal prices	1,219	1,321	1,406	1,493	1,584

The RAV numbers published by Ofgem are expressed in 2007/08 prices and are subject to escalation for inflation from that date. The figures shown in the table above represent an indexation factor at March 2008 of 212.1, actual inflation (as measured by RPI) to March 2012 and an illustrative forecast assumption of 2.5 per cent. inflation per annum for 2013 to 2015. If

the actual inflation rate varies from 2.5 per cent. the nominal prices for RAV for 2013 to 2015 would be adjusted accordingly.

Strategy

In common with Northern Powergrid group the Issuer's long-term financial strategy is to operate the business with a simple and conservative funding structure which maintains a good investment grade credit rating.

The Issuer operates a business model and strategy based on its six core principles, which are:

Principle	Strategy	Indicator
Financial strength	Effective stewardship of the Issuer's financial resources, investing in assets and focusing on long-term opportunities, which contribute to the Issuer's future strength.	Profitability, cash flow and maintenance of investment grade credit ratings.
Customer service	Delivering reliability, fair prices and exceptional service.	Improving network resilience and performance, measured by: customer minutes lost; customer interruptions; and customer satisfaction.
Operational excellence	Setting high standards for the Issuer's operations and system investment, operation and maintenance.	Effective asset management, managing commercial risk and improving network resilience and performance.
Employee commitment	Equipping employees with the resources and skills they need to operate successfully and in a safe and rewarding environment.	Leading safety performance, engaging employees and effective leadership.
Environmental respect	Using natural resources wisely and protecting the environment, where it is impacted by the Issuer's operations.	Reducing environmental impact and promoting and pursuing long-term sustainability.
Regulatory integrity	Adhering to a policy of strict compliance with appropriate standards, policies and legislation.	Strong internal controls, regulatory engagement and industry influence.

Customer Information

Substantially all of the end-users in the Issuer's distribution service area are connected to the Issuer's network and electricity can only be delivered to these end-users through its distribution systems, thus providing the Issuer with distribution volumes that are relatively stable from year

to year. The Issuer charges fees for the use of its distribution systems to the suppliers of electricity.

The suppliers purchase electricity from generators, sell the electricity to end-user customers and use the Issuer's distribution network pursuant to an industry standard "Distribution Connection and Use of System Agreement." One supplier, Npower, represented 29 per cent. of the distribution revenue of the Issuer during 2011.

The service territory features a diverse economy with no dominant sector. The mix of rural, agricultural, urban and industrial areas covers a broad customer base concentrated around the principal centres of Sheffield and Leeds.

Nearly all of the revenue generated by the Issuer is from regulated activities. The table below shows that in each of 2009, 2010 and 2011, approximately 95 per cent. of the Issuer's revenue came from regulated activities for Distribution Use of System charges ("**DUoS**") including generation DUoS and metering. Most of the Issuer's other revenue was generated from trading with affiliates. The increases in regulated revenues reflect a combination of the real 6.5 per cent. per annum growth arising from DPCR5, the effect of performance under regulatory incentives and the impact of inflation.

<i>Revenue segmental analysis</i>	2011	2010	2009	<i>Variance (%)</i>	
	£m	£m	£m	2011 v	2010 v
	(unaudited)			2010	2009
Regulated – DUoS	321	291	256	10%	14%
Regulated – Metering	6	6	5	-	20%
Unregulated – Other	12	12	11	-	9%
Total reported revenue	339	309	272	10%	14%

Almost all of the revenues from regulated activities come from the relatively stable market sectors of residential, commercial and industrial customers. The tables below indicate that residential and commercial customers represented approximately 50 per cent. of electricity distributed and approximately 67 per cent. of revenues received in 2011.

<i>GWh distributed segmental analysis</i>	2011	2010	2009	<i>Variance (%)</i>	
	GWh	GWh	GWh	2011 v	2010 v
				2010	2009
Residential	7,904	8,313	8,169	(5%)	2%
Commercial	3,492	3,614	3,615	(3%)	(0%)
Industrial	10,915	10,848	10,551	1%	3%
Unmetered	315	319	307	(1%)	4%
Total GWh distributed	22,626	23,094	22,642	(2%)	2%

The volumes distributed in 2010 were positively impacted by severe winter weather which affected the Issuer's service territory at the beginning and the end of the year.

<i>DUoS revenue segmental analysis</i>	2011	2010	2009	Variance (%)	
	£m	£m	£m	2011 v 2010	2010 v 2009
	(unaudited)				
Residential	161	130	136	23%	(4%)
Commercial	54	55	50	(2%)	10%
Industrial	103	104	66	(1%)	58%
Unmetered	3	2	4	25%	(50%)
Total revenue	321	291	256	10%	14%

Between 2009 and 2010 industrial revenue increased by 58 per cent. This was caused by the new methodology designed by Ofgem to provide incentives to industrial customers to use electricity outside peak times. This methodology drove an increase in industrial tariffs which was not offset by a reduction in industrial usage. Between 2010 and 2011 residential revenues increased by 23 per cent. due to a separate feature of the charging methodology which takes account of how different customer groups benefit from network investment. The 2011 charging data showed increased investment in support of residential users, with a consequential increase in tariffs.

The table below sets out the Issuer's performance against the Ofgem targets for the key measures for incentives of customer interruptions and customer minutes lost.

	Ofgem target	2011	2010	2009
Customer interruptions	75.3	69.9	71.4	76.4
Customer minutes lost	76.0	68.2	63.5	73.1

Pensions

The Issuer has three retirement benefit schemes.

The Northern Electric Group of the Electricity Supply Pension Scheme (the "**ESPS Scheme**") is a defined benefit scheme for directors and employees, which provides pension and other related benefits based on final pensionable pay. The assets of the ESPS Scheme, which was closed to staff commencing employment on or after 23 July 1997, are held in a separate trustee-administered fund. Two defined contribution schemes, the Northern Powergrid Pension Scheme and the Yorkshire Electricity Pension Plan, were made available to new employees from that date.

The ESPS Scheme and the Northern Powergrid Pension Scheme are operated by Northern Electric plc on behalf of the participating companies within the Northern Powergrid group, including the Issuer.

The last triennial actuarial valuation of the ESPS Scheme was carried out by the Group Trustees' actuarial advisors, Aon Hewitt, as at 31 March 2010. The total market value of the assets of the ESPS Scheme at the date of that actuarial valuation was £983m. The valuation showed that the value of the assets represented 78 per cent. of the actuarial value of the accrued benefits. This represents a shortfall of assets compared to the value of accrued benefits of £276m. The accrued benefits include all benefits for pensioners and other members, as well as benefits based on

service completed to date for active members, and allows for an estimate of future salary increases.

Agreement was reached during June 2011 with the Group Trustees to repair this deficit over the 15 year period to 31 March 2025, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2010 remaining valid. The agreement includes total cash payments from the Northern Powergrid group into the ESPS Scheme of £29.9m per annum in 2009/10 prices, of which £7.6m is borne by the Issuer. The structure of the agreement is in line with the assumptions used by Ofgem in DPCR5 published in December 2009 and the payments agreed will reflect inflation as applied by Ofgem in setting regulatory allowances.

The ESPS Scheme is a defined benefit plan that shares the risk between various entities under common control. There is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to individual group entities and accordingly the Issuer accounts for the scheme as if it were a defined contribution scheme, as permitted by IAS 19, Employee Benefits.

Directors of the Issuer

The Issuer is managed by a Board of Directors comprising the following individuals:

Name	Position	Principal non-Group activities
J.P. Barnett	Commercial Director	None
R. Dixon	Non-Executive Director	None
T.E. Fielden	Finance Director	None
J.M. France	Regulation Director	None
N.M. Gill	Field Operations Director	None
P.A. Jones	President and Chief Executive Officer	None

The business address of each of the Directors is Lloyds Court, 78 Grey Street, Newcastle-upon-Tyne, NE1 6AF. No Director has any actual or potential conflict of interest between his duties to the Issuer and his private interests and/or other duties.

TAXATION

The following is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to the taxation treatment of the Bonds as at the date of this Prospectus. This is subject to any change in law or practice that may occur after such date and which may occur without notice and in some cases retrospectively. It does not purport to be a complete analysis of all United Kingdom tax considerations relating to the Bonds and is a general guide and should be treated with appropriate caution. It does not necessarily apply where income is deemed for tax purposes to be the income of any other person. It relates only to the position of persons who are the absolute beneficial owners of the Bonds. Some aspects do not apply to certain classes of taxpayer (such as collective investment schemes, financial traders or dealers or persons who are connected with the Issuer). Prospective Bondholders who may be subject to tax in jurisdictions other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payment of Interest on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds 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. The Bonds will be treated as listed on the London Stock Exchange if they are included in the Official List of the United Kingdom Listing Authority and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom income tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is a company within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue and Customs 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 Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to such relief as may be available following a direction from HM Revenue and Customs pursuant to the provisions of any applicable double taxation treaty or to any other exemption which may apply.

The Bonds are issued at an issue price of less than 100 per cent. of their principal amount. This discount element will not generally be subject to any United Kingdom withholding tax pursuant to the provisions outlined above, but may be subject to reporting requirements outlined below.

Any premium payable on a redemption of the Bonds may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax provisions as outlined above and reporting requirements as outlined below.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Terms and Conditions or any related documentation

HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with tax authorities in other countries.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

Bondholders should be aware that the European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Banco Santander, S.A., Lloyds TSB Bank plc and The Royal Bank of Scotland plc (together the "**Joint Lead Managers**") have, in a subscription agreement dated 2 July 2012 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

United States of America

The Bonds have not been and will not be registered under the Securities Act or under any relevant securities laws of any state or other jurisdiction of the United States. The Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in accordance with applicable U.S. state securities laws.

Each Joint Lead Manager has agreed that it will not offer, sell or deliver the Bonds, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Bonds and the date of issue of the Bonds (the "**Distribution Compliance Period**") within the United States or to, or for the account or benefit of, U.S. persons, and, at or prior to confirmation of sale of the Bonds, it will have sent to each distributor, dealer or other person to which it sells Bonds during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering of such Bonds) may violate the requirements of the Securities Act.

The Bonds 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 U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

United Kingdom

Each Joint Lead Manager has represented and agreed, *inter alia*, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom; and

- (b) 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 FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

General

Each of the Joint Lead Managers has acknowledged that no action has been taken by the Issuer or any Joint Lead Manager which would or is intended to permit a public offer of Bonds in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds in any country or jurisdiction where action for that purpose is required and neither this Prospectus nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will, to the best of its knowledge and belief, result in compliance with applicable laws and regulations.

GENERAL INFORMATION

1. The creation and issue of the Bonds has been authorised by a resolution of a committee of the Board of Directors of the Issuer dated 29 June 2012.
2. The admission of the Bonds to the Official list will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that official listing will be granted on or about 5 July 2012 subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. The Issuer estimates that the total expenses related to the admission to trading of the Bonds will be approximately £7,175.
3. At the Closing Date, the yield on the Bonds will be 4.484 per cent. per annum. The yield is calculated at the Closing Date on the basis of the issue price. It is not an indication of future yield.
4. The Issuer is not, and has not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have had in such period a significant effect on the financial position or profitability of the Issuer.
5. There has been no significant change in the financial or trading position of the Issuer since 31 December 2011. There has been no material adverse change in the prospects of the Issuer since 31 December 2011.
6. The auditors of the Issuer are Deloitte LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, and which have audited, without qualification, the financial statements of the Issuer for the financial years ended 31 December 2010 and 31 December 2011. The address of Deloitte LLP is One Trinity Gardens, Broad Chare, Newcastle-upon-Tyne, NE1 2HF.
7. The financial information included in this Prospectus (other than the Issuer's financial statements which are incorporated by reference in this Prospectus) does not constitute the statutory accounts of the Issuer within the meaning of Section 435(1) and (2) of the Companies Act 2006 for any period presented. The auditors have made a report under Chapter 3 of Part 16 Of the Companies Act 2006 on the statutory accounts of the Issuer for each of the years ended 31 December 2010 and 31 December 2011, which reports were unqualified and did not contain any statement as is described in Sections 498(2) or (3) of the Companies Act 2006. Statutory accounts of the Issuer have been delivered to the Registrar of Companies in England and Wales for each of the years ended 31 December 2010 and 31 December 2011.
8. Copies of the following documents may be inspected during normal business hours at the offices of the Principal Paying Agent:
 - (a) the Memorandum and Articles of Association of the Issuer;

- (b) the Paying Agency Agreement and the Trust Deed; and
 - (c) the audited financial statements of the Issuer for the years ended 31 December 2010 and 2011.
9. The Bonds and any Coupons appertaining thereto will bear a legend to the following effect:
- "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." The sections referred to in such legend provide that a United States person who holds a Bond or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bond or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
10. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Bonds is XS0790894355 and the Common Code is 079089435.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

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