

PROSPECTUS



SSE plc

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

Scottish Hydro Electric Power Distribution plc

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

Scottish Hydro Electric Transmission plc

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

Southern Electric Power Distribution plc

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

€10,000,000,000

Euro Medium Term Note Programme

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

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (“**FSMA**”) (the “**UK Listing Authority**”) for Notes issued under the Programme for the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Prospectus to Notes being “**listed**” (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, “**MiFID II**”).

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II product governance / target market – The Final Terms in respect of any Notes may include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Amounts payable under the Floating Rate Notes issued under the Programme may be calculated by reference to either LIBOR or EURIBOR as specified in the applicable Final Terms, which are provided by the ICE Benchmark Administration Limited and European Monetary Markets Institute respectively. As at the date of this Prospectus, the Administrator of LIBOR (ICE Benchmark Administration Limited) appears on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority (“**ESMA**”) pursuant to Article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the “**BMR**”). As at the date of this Prospectus, the Administrator of EURIBOR (European Monetary Markets Institute) does not appear on the register of administrators and benchmarks established and maintained by the ESMA under Article 36 of the BMR. As far as the Issuers are aware, the transitional provisions in Article 51 of the BMR apply, such that the Administrator of EURIBOR is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

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

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

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

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

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

Arranger for the Programme

NatWest Markets

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.

BNP PARIBAS

MUFG

National Australia Bank Limited

RBC Capital Markets

Barclays

Lloyds Bank Corporate Markets

Morgan Stanley

NatWest Markets

Santander Corporate & Investment Banking

23 August 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

To the fullest extent permitted by law, none of the Dealers or the Arranger accept any responsibility for the contents of this Prospectus or for any other statement, made or purported to be made by the Arranger or a Dealer or on its behalf in connection with the Issuers or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement. Neither this Prospectus nor any other financial statements should be considered as a recommendation by any of the Issuers, the Arranger

or the Dealers that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of any Issuer during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

In connection with the issue of any Tranche (as defined in “Overview of the Programme — Method of Issue”), the Dealer or Dealers (if any) acting as the stabilising manager(s) (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

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

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

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

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

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

consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In this Prospectus, the SSE Group presents certain alternative financial measures of performance which are not recognised by IFRS. These measures may not be comparable to similarly titled measures used by other companies and are not measurements under IFRS or any other body of generally accepted accounting principles, and thus should not be considered substitutes for the information contained in the SSE Group's financial statements. Where appropriate, the relevance and calculation of these measures has been explained either in this Prospectus or in the financial statements of the SSE Group incorporated by reference in this Prospectus.

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

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DOCUMENTS INCORPORATED BY REFERENCE

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

- (i) the audited consolidated financial statements of SSE for the financial years ended 31 March 2017 (included on pages 101 to 186 and pages 199 to 202 of the 2017 Annual Report of SSE) and 2018 (included on pages 141 to 227 and pages 240 to 243 of the 2018 Annual Report of SSE), respectively,
- (ii) the audited financial statements of SHEPD for the financial years ended 31 March 2017 (included on pages 17 to 34 of the 2017 Statutory Accounts of SHEPD) and 2018 (included on pages 18 to 39 of the 2018 Statutory Accounts of SHEPD), respectively,
- (iii) the audited financial statements of SHE Transmission for the financial years ended 31 March 2017 (included on pages 17 to 34 of the 2017 Statutory Accounts) and 2018 (included on pages 17 to 35 of the 2018 Statutory Accounts), respectively,
- (iv) the audited financial statements of SEPD for the financial years ended 31 March 2017 (included on pages 17 to 32 of the 2017 Statutory Accounts of SEPD) and 2018 (included on pages 18 to 39 of the 2018 Statutory Accounts of SEPD), respectively, together, in each case, with the audit report thereon,
- (v) the section entitled “Terms and Conditions of the Notes” on pages 19 to 47 of the Prospectus dated 13 June 2008 relating to the Programme,
- (vi) the section entitled “Terms and Conditions of the Notes” on pages 18 to 50 of the Prospectus dated 10 July 2009 relating to the Programme,
- (vii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 17 September 2010 relating to the Programme,
- (viii) the section entitled “Terms and Conditions of the Notes” on pages 19 to 51 of the Prospectus dated 16 September 2011 relating to the Programme,
- (ix) the section entitled “Terms and Conditions of the Notes” on pages 21 to 59 of the Prospectus dated 27 June 2012 relating to the Programme,
- (x) the section entitled “Terms and Conditions of the Notes” on pages 20 to 56 of the Prospectus dated 2 August 2013 relating to the Programme,
- (xi) the section entitled “Terms and Conditions of the Notes” on pages 22 to 59 of the Prospectus dated 31 July 2014 relating to the Programme,
- (xii) the section entitled “Terms and Conditions of the Notes” on pages 23 to 61 of the Prospectus dated 23 July 2015 relating to the Programme; and
- (xiii) the section entitled “Terms and Conditions of the Notes” on pages 26 to 65 of the Prospectus dated 25 August 2017 relating to the Programme.

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

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

Websites included in the Prospectus are for information purposes only and do not form part of the Prospectus.

SUPPLEMENTARY PROSPECTUS

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

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

RISK FACTORS

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

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

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

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

Factors that may affect the relevant Issuer's ability to fulfil its obligations under or in connection with the Notes

Industry Risk

When setting strategic objectives, the Board of directors of the Issuer (the “**Board**”) considers all material influencing factors, including those relating to climate change, technological developments and customer expectations. During the course of the year, the Board made the proposal to merge SSE's household energy supply and services business in the UK (now named SSE Energy Services) with npower, the retail business of Innogy SE (“**Innogy**”), to form a combined independent retail company.

A dedicated project team has been put in place to manage this transaction and the risks associated with it and is reporting on its progress to the Board and Executive Committee on a regular basis. Material changes in the nature and impact of SSE's Group Principal Risks are continuously assessed with mitigating actions implemented wherever necessary. See “– *Risks relating to the SSE Energy Services Transaction*”.

No business is risk free and indeed the achievement of SSE's strategic objectives necessarily involves taking risk. SSE will however only accept risk where it is consistent with its core purpose, strategy and values, is well understood and can be effectively managed and offers commensurate reward. The sectors in which SSE operates are inherently subject to a high degree of political, regulatory and legislative risk. Furthermore, each of SSE's three business divisions (producing, generating and trading electricity and gas (“**Wholesale**”), transmitting and distributing electricity (“**Networks**”) and supplying electricity, gas and related services to homes and businesses (“**Retail**”, which includes “**Enterprise**”)) has differing levels of exposure to additional risks. For example, the Networks business is largely economically regulated and is characterised by relatively stable, inflation-linked cash flows while the Wholesale business benefits from cash flows linked to government-mandated renewables. In fulfilling its core purpose, the Wholesale business is however also exposed to significant energy market and commodity risk in its operational and investment decision making.

SSE maintains a balanced range of economically regulated and market-based energy businesses and assets ranging from energy production and delivery to the provision of energy and complementary services. These provide a diversified portfolio of business activities whilst keeping the depth of focus on a single sector – energy.

SSE has a clear understanding of the risks and opportunities in the UK and Ireland energy markets and these markets therefore continue to be the Group's geographic focus.

In areas where SSE is exposed to risks for which it has little or no appetite, even though it has implemented high standards of control and mitigation, the nature of these risks mean that they cannot be eliminated completely. In determining its appetite for specific risks, the Board is guided by three key principles:

- Risks should be consistent with SSE's core purpose, financial objectives, strategy and values. In particular, safety is SSE's first value and it has no appetite for risks brought on by unsafe actions;
- Risks should only be accepted where appropriate reward is achievable on the basis of objective evidence and in a manner that is consistent with SSE's purpose, strategy and values; and
- Risks should be actively controlled and monitored through the appropriate allocation of management and other resources, underpinned by the maintenance of a healthy business culture.

The Board has overall responsibility for determining the nature and extent of the SSE Group's exposure to risk, as well as ensuring that risks are managed effectively across the SSE Group.

Regulatory Risk

Licensing regime

The electricity and gas distribution and electricity transmission networks operations, the electricity generation operations and the gas and electricity supply operations of the SSE Group are subject to regulation and licensing requirements by the Gas and Electricity Markets Authority (the "**Authority**"). In addition, the electricity and gas distribution networks, as well as electricity transmission, are subject to direct price regulation by the Authority.

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

In particular, there can be no assurance that future networks' price controls will permit the generation of sufficient revenues to enable the Issuers to meet their payment obligations under the Notes, and there can also be no assurance that net operating revenues generated by the SSE Group will be sufficient to enable the Issuers to meet such payment obligations.

Any failure by any holder of a licence within the SSE Group to comply with the terms of its licence may lead to the making of an enforcement order by The Office of Gas and Electricity Markets ("**OFGEM**") that could have a material adverse impact on the relevant Issuer and/or the SSE Group.

Enforcement Framework

OFGEM completed a review of its enforcement policies in 2014 and its enforcement guidelines were subsequently amended in September 2016 and October 2017. Upon completion of its review, OFGEM introduced bodies including an Enforcement Oversight Board, Settlement Committees and an independent Enforcement Decision Panel to make decisions regarding breaches, the use of its enforcement powers and the imposition of penalties or consumer redress payments. OFGEM'S vision is that businesses should put their customers first and act in line with their obligations and that it should target its own resources and powers so as to make the best impact, underpinned by principles of transparency, accountability, proportionality and consistency. Where breaches have occurred, OFGEM would deliver credible deterrence for companies with visible and meaningful consequences where they do not comply. Since then, the level of financial penalties issued by OFGEM has noticeably increased from levels seen in previous years. For example, in April 2016, ScottishPower was required to pay £18 million in respect of customer service failings. However, OFGEM has also publicised the value of companies adopting a self-reporting approach, coupled with swift action to put things right, which can and has resulted in OFGEM seeking to resolve the matter via alternative action rather than opening an enforcement investigation. OFGEM can also require

companies to make a redress payment to charity in lieu of, or in addition to, a traditional penalty payment. In practice this is agreed through negotiated settlement, though OFGEM has powers to, where it is appropriate, make a customer redress order should redress not be agreed in enforcement cases. OFGEM has appointed the Energy Saving Trust as its independent third party redress administrator which is tasked with allocating, managing and monitoring voluntary redress payments.

Retail Regulation

The UK Competition and Markets Authority (the “CMA”) published its final report on its investigation into the UK energy market on 24 June 2016, which set out proposals for a substantive package for customers. In December 2016, the CMA published a number of final orders to give legal effect to the proposed remedies.

The CMA has published the following orders:

- The Energy Market Investigation (Electricity Transmission Losses) Order 2016
- The Energy Market Investigation (Prepayment Charge Restriction) Order 2016
- The Energy Market Investigation (Restricted Meters) Order 2016
- The Energy Market Investigation (Microbusinesses) Order 2016
- The Energy Market Investigation (Gas Settlement) Order 2016
- The Energy Market Investigation (ECOES/DES) Order 2016
- The Energy Market Investigation (Database) Order 2016
- The Energy Market Investigation (Gas Tariff Codes) Undertakings 2016

OFGEM published a high-level implementation strategy detailing how it intends to progress the remedies allocated to OFGEM for implementation. OFGEM has directed amendments to the licence conditions which will alter the retail market with simpler tariff choices rules, taking account of the CMA recommendations. This has resulted in the removal of a number of licence conditions from the licence, including the “four tariff cap” and the restrictions on bundling energy tariffs with other products and services. In addition, OFGEM effected a new licence condition (“SLC 32A”) giving it the power, if necessary, to direct suppliers to test consumer engagement measures.

In relation to the CMA remedies, OFGEM has also consulted on:

- a review of the Confidence Code;
- changes to implement the CMA recommendations in relation to industry code governance;
- a new approach to financial reporting under the Consolidated Segmental Statements; and
- the introduction of the disengaged customer database which will store information on customers who have been on a standard variable tariff with the same supplier for three years or more.

An important remedy to note is the prepayment charge restriction (or prepayment price cap). From 1 April 2017, the amount suppliers can charge a domestic prepayment customer has been subject to a transitional cap, which will be set by OFGEM in accordance with the provisions in the Energy Market Investigation (Prepayment Charge Restriction) Order 2016. This will limit the margin that suppliers can charge customers who pay through prepayment meters. The pre-payment meter (“PPM”) price cap, which will be transitional and in force from 2017-2020, will apply to all PPM customers with either ‘dumb’ meters or SMETS1. The price cap will not apply to customers with SMETS2 smart meters.

A significant level of resource and investment has been deployed in order to implement the proposed remedies within the directed timeframes and to customers’ satisfaction. Furthermore, suppliers are under pressure to evolve and adapt in response to competition and changing customer expectations at a time of considerable regulatory and

technological change (e.g. the smart meter roll out and the faster switching programme). This significant pipeline, as well as the prospect of further regulatory intervention on tariffs under tight timescales, places real constraints on suppliers' IT systems and resources.

The topic of retail price regulation has remained controversial, however, with a continuing threat of further intervention. The Government referred to retail price regulation in the 2017 Queen's Speech, which noted that the Government intended to bring forward measures to ensure fairer markets for consumers and to reduce energy bills. On 21 June 2017, the Secretary of State wrote to OFGEM to request "advice" as to what the regulator might do to address the issues in the market. On 3 July 2017, OFGEM responded to note that it would look at options including the potential extension of the PPM safeguard cap to a wider group of vulnerable customers. In October 2017, the Department for Business, Energy and Industrial Strategy proposed legislation to allow OFGEM to set an absolute cap for SVT customers in the UK. On 2 February 2018, OFGEM extended the PPM price cap to include around one million customers (of suppliers with more than 250,000 customers) who are on their supplier's default tariff and in receipt of the Warm Home Discount benefit (the "**Vulnerable Safeguard Tariff**"). The Vulnerable Safeguard Tariff will end in December 2019 if it is not replaced by other tariff interventions. On 26 February 2018, the UK government introduced the Domestic Gas and Electricity (Tariff Cap) Bill into Parliament and stated its intention that OFGEM should implement the tariff cap by the end of the year. The proposed legislation would allow OFGEM to set a temporary price cap for SVT and certain other default tariff customers in the UK and would last until 2020, with a maximum of three one-year possible extensions if OFGEM recommends to the Secretary of State that conditions are not yet in place for effective competition. The SVT/default price cap must end by the end of 2023.

Overall, OFGEM is looking at introducing a new approach to regulation that will be reliant on principles, rather than prescriptive rules. This piece of work, referred to as the "Future of Retail Regulation" project, will examine the current rulebook with a view to introducing additional overarching principles whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation. On 23 June 2017, OFGEM published its final statutory consultation on new principles governing sales and marketing ("**SLC25**"), whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation. As part of this workstream, OFGEM consulted on a number of licence changes in 2017, which included new principles governing sales and marketing, whilst at the same time removing some of the prescriptive requirements in this area. In addition, OFGEM amended the existing Standards of Conduct, which is designed to widen the scope of the principles, and introduced a new principle regarding the treatment of vulnerable customers. Further refinement to OFGEM's approach to principles-based regulation is expected during the course of 2018 and 2019.

Landscape for licence modification appeals

In March 2015, British Gas Trading Limited ("**BGT**") lodged an appeal with the CMA on the RIIO-ED1 final determination that could have affected the five distribution network operator groups, including Scottish and Southern Energy Power Distribution ("**SSEPD**"), a subsidiary of the SSE Group (at the same time, Northern Powergrid ("**NPg**") also lodged an appeal seeking to enhance its own price control settlement). The CMA published its Final Determination on 29 September 2015. Of the six original BGT grounds for appeal, only one was partially upheld. The decision did not materially reduce the forecast RIIO-ED1 return, nor, as a consequence, did it reduce the return below the target set by SSEPD and on which the price control settlements were accepted. Whilst the impact of the appeal on SSEPD was largely benign, the raising of the appeal has influenced the regulatory landscape and the way that future price controls will be set.

Political, Legal and Compliance Risks

The markets in which the SSE Group operates are subject to a high degree of political and legislative intervention at both domestic and European Union ("**EU**") level. This legal and compliance framework, which can change

explicitly with the introduction of new or revised legislation or implicitly due to evolving interpretation and legal precedent, could adversely impact the SSE Group's market position, financial position or competitiveness.

The SSE Group has substantial operations in the UK and is therefore exposed to macro-economic conditions in the UK. These conditions may be affected by a variety of domestic and international factors, including the potential impacts of Brexit. The terms of the withdrawal from the European Union will be negotiated over a period which may extend until at least March 2019. There may also be a transitional period between March 2019 and December 2020 in which further negotiations may take place. As a result, there is significant uncertainty about the future relationship between the UK, the European Union and its other Member States and the impact that any such future relationship may have on macroeconomic conditions in the UK.

Certain political parties in the UK have made statements in respect of their intended actions in the UK energy supply market. For instance, the Labour party has stated its intention to regain control of the energy industry including regulated energy networks, and to transition retail and generation to a publicly owned, decentralised energy system, and the Scottish National Party has made reference to introducing a publicly owned energy supplier. Any changes to UK government policy or, if an early general election were to be called, a change in government may trigger new announcements, proposals or interventions in the UK energy supply market.

In addition, the Scottish Government has kept open the option of calling for a second referendum on Scotland's independence from the UK. It is unclear whether any such referendum will occur, what the outcome might be should it occur, and if a referendum occurred and Scotland voted to leave the UK, what Scotland's future relationship with the rest of the UK and the European Union would be. The consequences of a potential future referendum on the SSE Group's business are therefore uncertain.

Any consequences of the political risks discussed above could have a material adverse effect on the SSE Group's business, financial performance, results of operations and prospects.

Plant and Network Performance

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

Commodity Price Risk, Procurement Risk and Security of Supply

The SSE Group will be exposed to fluctuations in the physical volume and price of key commodities, including electricity, gas and CO₂ allowances. A proportion of the SSE Group's profitability will be dependent on the successful management of these exposures. An ineffective trading strategy could lead to significant financial loss, loss of customers and increased political scrutiny. Furthermore, following completion of the SSE Energy Services demerger, the SSE Group will no longer be able, to the same degree, offset margin pressure in its downstream energy supply business during periods of high commodity prices with higher prices in its upstream energy production business, which may make management of fluctuations in the volume and price of commodities more difficult.

The markets for these commodities are driven by global supply and demand, which is itself influenced by a number of complexities including global economic growth, the weather and technological advancement.

Further, geopolitical events can impact commodity prices. For instance, Russia, which is an important source of European gas supply, has, over the past several years, been involved in various matters that have resulted in the deterioration of Russia's relations with other members of the international community, including various countries in Europe. These and other geopolitical events have a significant impact on gas prices in the UK.

Global commodity prices make up a significant part of the energy cost to the customer. Increasing commodity prices affect the overall affordability of energy and can have an impact on demand and customers' ability to pay.

There is a risk that surplus commodity positions cannot be sold to the wholesale markets profitably and that any commodity short position cannot be covered at a cost that can be passed on to customers.

Significant price fluctuations and/or failure to secure key materials and/or maintain adequate supply chains and strategic alliances could have a material adverse effect on the SSE Group's business, financial performance, results of operations and prospects.

Energy Affordability

Affordability of energy is vitally important but must be balanced against the need to decarbonise and ensure the reliability of Britain's energy system. The cost of vital government programmes designed to achieve these aims by upgrading Britain's ageing energy infrastructure are predominantly levied against electricity customers; as a result, on 30 May 2018 in response to increasing costs, SSE Energy Services took the difficult decision to raise standard electricity and gas prices in a change that will increase a typical dual fuel bill by an average of 6.7 per cent. from 11 July 2018. This rise equates to an increase of 5.7 per cent. for gas and 7.7 per cent. for electricity, meaning a typical dual fuel customer will see a rise of around £1.50 each week. Customers who are on fixed-price tariffs, have a prepayment meter, or are on the Vulnerable Customer Safeguard tariff will not be affected.

However, SSE recognises the impact higher energy costs can have on customers, particularly the most vulnerable. With that in mind it is continuing work to deliver efficiencies across its business to mitigate the impact of rising costs.

If the cost of conventional energy production does not remain competitive, there is likely to be increasing pressure from alternative sources of energy as well as public and political pressure. This could have a significant effect on the long term performance of all areas of the business with knock on effects to both demand and the customers' ability to pay and by extension could have a significant adverse effect on the operations and/or financial position of the SSE Group.

As at 31 March 2018, SSE's aged debt – customer accounts that are at least six months in arrears – was £76.4 million, compared with £80.2 million as at 31 March 2017.

Competition and Market Risks

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

Health and Safety

Although safety is one of the SSE Group's core values, by the nature of its operations, SSE faces a number of significant safety risks, in particular relating to process safety. A major incident at one of SSE's hydro, gas storage or E&P assets could have a material adverse impact on employees, contractors, members of the public, the environment and property.

The SSE Group has crisis management and business continuity plans in place, which are designed for the management of, and recovery from, significant safety or environmental events. For offshore E&P assets where SSE is not the operator, there are a number of assurance measures in place to ensure that the proven and approved operator partners maintain and adopt high standards for their safe management and operation. This includes regular engagement across all aspects of the operation, with an emphasis on safety and technical assurance audits and verification using both internal and third party resources.

Failure to implement and maintain effective health and safety management and governance could generate significant human and financial costs, as well as reputational damage, as a result of injury to people, work related ill health and potential disruption of service to the SSE Group's customers. It can also lead to claims for employee and third party compensation; fines or other sanctions for breaches of statutory requirements; criminal sanctions

initiated against the SSE Group, its directors and employees; and/or increased employee absence and reduced performance levels.

Quality Customer Service

In July 2016, OFGEM opened an investigation in relation to SSE Energy Services' compliance with certain licence conditions relating to concerns that SSE Energy Services' may not have been treating its customers fairly when switching them to PPMs. This investigation was closed in November 2017 and no action was taken by OFGEM.

In November 2017, OFGEM opened an investigation in relation to SSE Energy Services' compliance with certain licence conditions regarding annual statements issued to prepayment customers between June 2014 and September 2015. This matter was self-reported to OFGEM and SSE Energy Services voluntarily paid £1,000,000 into OFGEM's consumer redress fund administered by the Energy Savings Trust. The investigation subsequently closed in June 2018 without formal enforcement action being taken.

In June 2018, OFGEM confirmed that it had been in discussions with SSE regarding meeting the requirements of its licence conditions in relation to its relationship with the white label Ebico which was terminated at the end of 2016. SSE paid £190,000 to affected Ebico customers to compensate them for the delay in being migrated to other SSE tariffs. SSE also voluntarily decided to make a good will gesture payment of £475,000 to customers who had benefited from the delayed migration. For customers who left SSE before they would have been migrated to an alternative tariff, SSE will be making a voluntary redress contribution of £35,000 into OFGEM's consumer redress fund administered by the Energy Savings Trust. As SSE cooperated with OFGEM throughout the compliance process, OFGEM has closed the case without taking further action.

Any failure to maintain quality customer services levels can have a material adverse effect on the SSE Group's reputation and financial position as well as the increased risk of regulatory scrutiny which could result in fines from OFGEM.

Strategic Risk

The SSE Group's strategic focus is the efficient operation of, and investment in, a balanced range of energy businesses to support annual dividend growth. The SSE Group strives to be a leading provider of energy and related services within an industry where innovation, de-carbonisation and competition are leading to continual technological advancements and changes in customer expectations and options. To continue to achieve this, a number of strategic change programmes are under way. It is vital that the SSE Group successfully delivers these to meet the current and future needs of customers in the most efficient way possible. Failure to do so and to identify step changes in the industry sectors and react appropriately could adversely affect the SSE Group's financial position, market position or reputation.

Risks relating to the SSE Energy Services transaction

Completion of the demerger of SSE Energy Services and the subsequent merger between SSE Energy Services and npower ("**Completion**") is subject to the satisfaction (or waiver, where applicable) of a number of conditions, some of which are outside of the parties' control. There can be no certainty that these conditions will be satisfied (or waived, if applicable) in a timely manner or at all, in which case Completion may be delayed or may not occur and the benefits expected to result from the SSE Energy Services transaction (the "**Transaction**") may not be achieved. Failure to complete, or a delay in completing, the Transaction for whatever reason could have a significant impact on the SSE Group's reputation and business strategy, as considerable resources have been devoted to effect the Transaction, including substantial expenses and management's time and attention.

The planned Transaction is subject to merger control approval from the CMA. The energy sector is subject to a high degree of regulatory and legislative intervention at both domestic and EU level and the Transaction will be subject to detailed scrutiny from the CMA with observations from OFGEM. Approval from the CMA may take longer than expected to obtain and/or may not be granted or may be granted subject to conditions or remedies.

The SSE Group expects to incur a number of costs in relation to the Transaction, including integration costs, post-Completion costs and tax costs, which could exceed the amounts currently estimated. There may also be further additional and unforeseen expenses incurred in connection with the Transaction either due to delays or otherwise. Whilst the Board believes that the costs related to the Transaction will be offset by the realisation of the benefits of the Transaction, there can be no certainty that any benefits of the Transaction that are realised will offset such costs, which could have a material adverse effect on the business, financial performance, results of operations and prospects of the SSE Group.

The reorganisation and separation of SSE Energy Services from the SSE Group (the “**Separation**”) is complex. There can be no certainty that the Separation will be successfully implemented and there may be unforeseen barriers to the completion of the intended separation steps in the intended time frame, or at all.

The anticipated benefits and operational efficiencies to be created by the Transaction are based on assumptions regarding, amongst other things, the financial and operational performance of npower, including in the period prior to Completion, when the financial and operational performance of npower is outside the control of the SSE Group. Some of SSE’s customers may seek to terminate or renegotiate business contracts with the SSE Group. The Transaction may also affect the ability of the SSE Group to attract, retain and motivate employees. This could cause their customers, suppliers and other stakeholders that deal with them to seek to change existing business relationships.

In connection with the Transaction, several transitional agreements will be entered into for the performance of certain services or obligations for the benefit of each other for a transitional period. If any party is unable to satisfy its obligations in connection with the transitional periods in a timely manner or at all or if any party fails to provide for or cover certain essential services needed by any party during the transitional period, the SSE Group could experience operational difficulties or losses that could have a material adverse effect on its business, financial performance, results of operations and prospects.

Furthermore, following completion of the Transaction, SSE Energy Services will no longer form part of the SSE Group. It should be noted that consideration for the transaction will be a dividend in specie to SSE shareholders (who will receive shares in the new independent company resulting from the transaction) rather than payment being made into the SSE Group. Such dividend in specie will be equal to the aggregate book value of SSE’s interest in SSE Energy Services.

Financial Risks

The SSE Group is exposed to a variety of financial risks, including interest rate, foreign exchange, counterparty credit, liquidity and taxation. Although these risks are wherever possible monitored, reported on and managed within a strict framework of controls and procedures, adverse market, political or legislative developments or a failure to meet the SSE Group funding requirements and obligations could have a material adverse effect on the SSE Group’s financial position.

Environmental Risks

The SSE Group’s businesses are increasingly influenced by global climate change. Not adhering to current or future EU and UK legislation aimed at addressing climate change, including amendment to the current carbon emission allowance regime or renewable obligation certificate regime in the UK, could adversely impact on the SSE Group’s operations or commercial position. Climate change induced changes to the environment, such as increased frequency of extreme weather, may pose operational challenges. Customer response to climate change also presents risks to the SSE Group, including risk to sales volumes due to growing customer demand for low-carbon products and services. Failure to respond adequately to the risks posed by climate change may represent added reputational risk.

The SSE Group’s activities are subject to a broad range of environmental laws and regulations, many of which require advance approval in the form of permits, licences or other forms of formal authorisation. Failure to secure and adhere to the terms of all such necessary requirements, or indeed damage to the environment caused by the

SSE Group's business activities, could result in legal proceedings or other measures being taken against members of the SSE Group.

Energy Volumetric Risk and Other Weather Related Risks

Changes in temperature can affect demand for power and gas and consequently impact the price of these commodities and the number of units distributed. Additionally rainfall and/or snow melt conditions impact on hydroelectric generation output, and wind conditions impact on wind generation output. For instance, SSE released its results for the first quarter of 2017/18 on 19 July 2018, and reported that dry, still and warm weather (as well as the financial year so far also being characterised by persistently high gas prices), has resulted in a higher cost of energy, lower than expected output of electricity from renewable sources and lower volumes of energy being consumed, all of which had a significant impact on the performance of the SSE Group in the first quarter of 2017/18. Extreme weather conditions may also result in network damage, which in turn is likely to result in disruption to electricity supply.

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

Infrastructure Failure

The SSE Group's electricity networks are part of the UK's critical infrastructure assets and as such are central to the functioning of the economy. Additionally, the SSE Group is reliant on a number of key IT systems to support its ongoing operations. A loss of these systems could be caused by malicious cyber-attack, software or hardware issues, inadequate investment in maintenance or by poor operational performance. Any failure in these systems could result in lost revenues and may lead to supply interruptions, adverse publicity, regulatory action or damage to the reputation of the SSE Group.

Nothing in this risk factor should be taken as implying that any of the Issuers or any of the other entities within the SSE Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Industry and Company Transformation

The energy sector is undergoing constant technological improvement and political and regulatory change. It is important that the SSE Group is able to stay at the forefront of the industry by identifying emerging trends, developing strategies to exploit competitive opportunities and question the status quo and striving for continuous improvement in all areas of activity. In retail markets, competitive pressure means a failure to keep up with fast-developing customer needs and new technologies could reduce the SSE Group's market share and adversely affect service levels to customers. The introduction of smart metering and the faster switching programme and the changing expectations of the customer require a reorganisation of people, processes and supporting systems. In the networks business, the SSE Group has proposed significant reductions in overall cost and improvements in the standard of service that customers can expect to receive. To achieve this, it needs to deliver major cost efficiencies and improvements in customer service. Longer term, any large-scale adoption of smaller-scale distributed (local) generation could result in increased pressure on revenues and overheads which could adversely affect return on investment.

In the UK generation market, it will be critical to understand, identify and adopt the latest, most efficient technologies to maximise competitiveness for revenue support payments. An inability to do so could pose a threat to the SSE Group's capital investment plans and threaten its position in the market as a significant electricity generator.

The SSE Group's enterprise business was created to integrate expertise in contracting, lighting services, utility solutions, telecoms and business relationship management, forming a new standalone business-to-business arm of the SSE Group.

The projects to deliver these business transformations are large and complex. It is vital that the SSE Group successfully delivers these in order to give customers the services they require whilst maintaining an efficient cost

in connection with the provision of such services. Failure to do this could result in falling sales and customer numbers due to a lack of price competitiveness and a poor reputation for service. Poor service standards would in turn impact on revenues through foregone incentive payments as well as damaging the SSE Group's relationship with customers, regulators and other key stakeholders.

These projects will draw on resources from across the SSE Group and poor management of these resources, poor integration or inadequate scoping of project requirements and benefits could impact on business as usual activities, increase project costs and adversely affect service standards.

Pension Funds Risk

The SSE Group has obligations in respect of three defined benefit pension schemes (including Southern Gas Networks) and currently, in aggregate, there is an actuarial deficit between the current value of the projected liabilities of these schemes and the value of the assets that they hold. The deficit level in such schemes can be affected by a number of factors including asset volatility, changes in bond yields, fluctuations in interest rates, inflation, and changes in the life expectancy of scheme members. Although the defined benefit pension schemes each have investment advisors in place who have developed road-maps with the intention of the schemes becoming fully funded, within 15 years, adverse changes in the valuation of assets and/or liabilities in the defined benefit schemes may occur due to both market movements and changes in the assumptions used to calculate the funding levels of such schemes. This in turn may result in the SSE Group being required to make higher ongoing contributions, and/or make deficit repair payments which could be material.

Recruitment and Retention of Staff

The SSE Group is reliant on the employment of competent and qualified staff in all areas of its business. Failure to attract or retain key staff could materially adversely affect SSE Group operations. The SSE Group undertakes a number of activities to ensure that it attracts and retains the right level of staff. This includes, planning and monitoring of all recruitment needs; analysis of regretted attrition; annual succession planning reviews; reviews of difficult to fill roles; and operation of a number of trainee programmes to produce effective, skilled staff. The SSE Group operates a number of training centres which allow upskilling and refresher training of employees. In addition, effective resource planning and succession planning are key activities to ensure identification of future potential talent which is critical in the successful execution of the SSE Group's strategy.

Major Projects Quality

The SSE Group continues to deliver its capital investment programme with a number of major construction and IT projects nearing completion and its single biggest construction project, the Caithness-Moray high voltage transmission link, is now nearing completion. It is critical that these projects are delivered on time and on budget, supported by its Large Capital Projects Governance Framework. In addition, the SSE Group needs to ensure that projects are built to a high quality standard as they generally have an economic life of between 15 and 30 years and in many cases longer.

The SSE Group will typically manage the development process and organise the delivery of the project by third party contractors, taking a proactive oversight role during the construction phase. Whilst this model ensures that the correct skills are leveraged, the SSE Group has experienced supplier failures in the past most notably in terms of quality control. Whilst contractual warranties will cover the faulty components, there is often a significant unrecoverable cost associated with these events in addition to potential impacts to the service the SSE Group can provide to customers. Added to this, any quality defects may not show up until sometime after the construction of an asset resulting in an expensive and disruptive process of recovery.

Data Protection Risks

The SSE Group will have to comply with restrictions on the use of customer data and provide for secure transmission of confidential information to ensure the security of financial and personal data (including sensitive personal data) provided over public networks. For example, the SSE Group will be subject to the General Data Protection Regulation (Regulation (EU) 2016/679) ("GDPR") and the Data Protection Act 2018, each of which

became effective from 25 May 2018. This new regime is more onerous to comply with in relation to data protection compliance than past regimes and penalties for any breach of the GDPR would potentially be more severe.

Despite controls to ensure the confidentiality, availability and integrity of customer and company data, the SSE Group may breach restrictions or fail to comply with the provisions of the GDPR, or may be subject to malicious cyber-attacks that attempt to penetrate network security and misappropriate confidential or personal information. Due to advances in the sophistication and prevalence of these cyber-attacks and fast-paced technological advancements, computing capabilities and other developments, there can be no certainty that the SSE Group's security measures will be sufficient to prevent breaches. Breaches could result in legal liability, negative publicity and/or regulatory action against the SSE Group, any of which could have a material adverse effect on its business, financial performance, results of operations and prospects.

Geopolitical Risk

Russia is an important source of European gas supply, covering around 30 per cent. of European demand (including supply to the UK, the Netherlands, Germany, France, Spain, Italy and Belgium). Ukraine represents one of the major transit routes. The UK interconnection with continental Europe via BBL (the Balgzand Bacton Line) and Interconnector UK gas pipelines means that developments in the European gas market have a significant impact on gas prices in the UK. The ongoing conflict in the Ukraine creates uncertainty about the security of gas supply in Europe. Gas payment disputes arising between state-controlled companies in the Russian Federation and Ukraine also pose a key risk. Previous disputes over prices, payments and debt have led to gas supply interruptions of up to 18 days during the winters of 2005/2006, 2007/2008 and 2008/2009. Intensification of political tensions could lead to fresh disputes and to the curtailing of Russian gas supplies to Europe. This in turn would put pressure on European gas prices. As a result of the increased interconnection of gas markets, the SSE Group is exposed to the risks associated with global geopolitical events through its Energy Portfolio Management activities. However, SSE operates a policy of purchasing a proportion of its gas requirements in advance of delivery in order to manage market price volatility. In addition, SSE's upstream production interests help to ensure cost effective gas procurement for its customers. More generally, SSE ownership and operation of a balanced portfolio of thermal, wind and hydro generation assets seeks to reduce exposure to wider market and geopolitical risks.

Macroeconomic risk

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political intervention and tensions over global trade of goods, labour and capital mobility, terrorism and concerns over the stability of the monetary and political union in the European Union. Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debt of periphery EU countries and potentially other EU countries as well; the possibility of further credit rating downgrades of, or defaults on, such sovereign debt; and concerns about a slowdown in growth in certain economies.

In addition, macroeconomic conditions may be affected by the UK's decision to withdraw from the European Union. Macroeconomic conditions and/or the UK's withdrawal from the European Union may result in the depreciation of, or create volatility affecting, the pound sterling against the US dollar and other foreign currencies, which would make gas and other key commodities more expensive in the UK.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global and UK economic conditions and the stability of global and UK financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress household income, economic activity or commodities markets; restrict access to capital for the SSE Group; or impact energy affordability which, in turn, could contribute towards an increase in customer bad debt levels, any of which could have a material adverse effect on the SSE Group's business, financial performance, results of operations and prospects.

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

Risks related to the structure of a particular issue of Notes

Notes subject to optional redemption by an Issuer

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

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

With respect to the Clean-up Call Option by the Issuer (Condition 6(h)), there is no obligation on the Issuer to inform investors if and when the 80 per cent. threshold of the initial aggregate principal amount of a particular Series of Notes has been reached or is about to be reached, and the Issuer's right to redeem will exist notwithstanding that immediately prior to the serving of a notice in respect of the exercise of the Clean-up Call Option, the Notes may have been trading significantly above par, thus potentially resulting in a loss of capital invested.

RPI Linked Notes

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

Fixed/Floating Rate Notes

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

The regulation and reform of “benchmark” rates of interest and indices

Reference rates and indices, including interest rate benchmarks, such as the London Interbank Offered Rate (“**LIBOR**”), which are used to determine the amounts payable under financial instruments or the value of such financial instruments (“**Benchmarks**”), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform

differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a material adverse effect on any Notes referencing or linked to such Benchmark

In 2012, a review, undertaken at the request of the UK government, on the setting and usage of LIBOR, resulted in an initiative to devise new methodologies for determining representative inter-bank lending rates and, ultimately, so-called ‘risk free’ rates that may be used as an alternative to LIBOR in certain situations.

Following this review, the International Organisation of Securities Commissions (“**IOSCO**”) created a task force to draft principles to enhance the integrity, reliability and oversight of Benchmarks generally. This resulted in publication by the Board of IOSCO, in July 2013, of nineteen principles which are to apply to Benchmarks used in financial markets (the “**IOSCO Principles**”). The IOSCO Principles provide an overarching framework for Benchmarks used in financial markets and are intended to promote the reliability of Benchmark determinations and address Benchmark governance, quality and accountability mechanisms. The Financial Stability Board (“**FSB**”) subsequently undertook a review of major interest rate Benchmarks and published a report in 2014, outlining its recommendations for change, to be implemented in accordance with the IOSCO Principles. In addition, in June 2016, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the “**BMR**”) came into force. The BMR implements a number of the IOSCO Principles and the majority of its provisions apply from 1 January 2018.

In a speech on 27 July 2017, Andrew Bailey, the Chief Executive of the Financial Conduct Authority (the “**FCA**”), questioned the sustainability of LIBOR in its current form, given that the underlying transactions forming the basis of the benchmark are insufficient to support the volumes of transactions that rely upon it, and made clear the need to transition away from LIBOR to alternative reference rates. He noted that there was support among the LIBOR panel banks for voluntarily sustaining LIBOR until the end of 2021, facilitating this transition. At the end of this period, it is the FCA’s intention not to sustain LIBOR through its influence or legal powers by persuading or obliging banks to submit to LIBOR. Therefore, the continuation of LIBOR in its current form (or at all) after 2021 cannot be guaranteed. In a further speech on 12 July 2018, Andrew Bailey emphasised that market participants should not rely on the continued publication of LIBOR after the end of 2021.

Other interbank offered rates such as EURIBOR (the European Interbank Offered Rate) (together with LIBOR, the “**IBORs**”) suffer from similar weaknesses to LIBOR and as a result (although no deadline has been set for their discontinuation), they may be discontinued or be subject to changes in their administration.

Changes to the administration of an IBOR or the emergence of alternatives to an IBOR may cause such IBOR to perform differently than in the past, or there could be other consequences which cannot be predicted. The discontinuation of an IBOR or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to such IBOR. The development of alternatives to an IBOR may result in Notes linked to or referencing such IBOR performing differently than would otherwise have been the case if the alternatives to such IBOR had not developed. Any such consequence could have a material adverse effect on the value of, and return on, any Notes linked to or referencing such IBOR.

Whilst alternatives to certain IBORs for use in the bond market (including SONIA (for Sterling LIBOR) and rates that may be derived from SONIA) are being developed, in the absence of any legislative measures, outstanding notes linked to or referencing an IBOR will only transition away from such IBOR in accordance with their particular terms and conditions.

If a Benchmark Event (as defined in Condition 5(k)) (which, amongst other events, includes the permanent discontinuation of an Original Reference Rate) occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser. After consulting with the Independent Adviser, the Issuer shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Rate of Interest will result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Issuer, the Conditions provide that the Issuer may vary the Conditions, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Issuer, the Conditions also provide that an Adjustment Spread may be determined by the Issuer and applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Noteholders and Couponholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) will still result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Issuer may not be able to determine a Successor Rate or Alternative Rate in accordance with the terms and conditions of the Notes.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or is unable to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the Rate of Interest for the next succeeding Interest Period will be the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Rate of Interest will be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or, has failed, to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event will result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the floating rate Notes, in effect, becoming fixed rate Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the BMR or any other international reforms, particularly in the United Kingdom, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Notes issued at a substantial discount or premium

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

Risks related to Notes generally

Modification, waivers and substitution

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

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

Change of law

The Conditions are based on English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Bearer Notes where denominations involve integral multiples

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

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

Risks related to the market generally

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

In respect of any Notes issued with a specific use of proceeds, such as a Green Bond, there can be no assurance that such use of proceeds will be suitable for the specific investment criteria of an investor

The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply an amount equal to the net proceeds of the Issue of those Notes to Eligible Green Projects (as defined in "Use of Proceeds" and further described in SSE's Green Bond Framework (as amended and supplemented from time to time) (the "**Green Bond Framework**"). Prospective investors should have regard to the information set out in the relevant Final Terms regarding such use of proceeds and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary. In particular, no assurance is given by SSE that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Eligible Green Projects will meet any or all investor expectations regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Projects.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by SSE) which may be made available in connection with the issue of any Notes and, in particular, with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by SSE or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

In the event that any such Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), or are included in any dedicated "green", "environmental", "sustainable" or other equivalently-labelled index or indices, no representation or assurance is given by SSE or any other person that such listing or admission, or inclusion in such index or indices, satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own

by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another and also the criteria for inclusion in such index or indices may vary from one index to another. Nor is any representation or assurance given or made by SSE or any other person that any such listing or admission to trading, or inclusion in any such index or indices, will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading, or inclusion in such index or indices, will be maintained during the life of the Notes.

While it is the intention of SSE to apply the proceeds of any Notes so specified for Eligible Green Projects in, or substantially in, the manner described in the relevant Final Terms, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Projects. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by SSE. Any such event or failure by SSE will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that SSE is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance or refinance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

OVERVIEW OF THE PROGRAMME

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

Issuers:	SSE plc Scottish Hydro Electric Power Distribution plc Scottish Hydro Electric Transmission plc Southern Electric Power Distribution plc
Legal Entity Identifier (LEI):	SSE plc LEI: 549300K175VYLLMSK856 Scottish Hydro Electric Power Distribution plc LEI: 549300OPROMBN0FGNC34 Scottish Hydro Electric Transmission plc LEI: 549300ECJZDA7203MK64 Southern Electric Power Distribution plc LEI: 549300SR1GYYNBZQGX56
Description:	Euro Medium Term Note Programme
Size:	Up to €10,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
Arranger:	NatWest Markets Plc
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A. Banco Santander, S.A. Barclays Bank PLC BNP Paribas Lloyds Bank Corporate Markets plc Morgan Stanley & Co. International plc MUFG Securities EMEA plc National Australia Bank Limited ABN 12 004 044 937 NatWest Markets Plc RBC Europe Limited The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to “ Permanent Dealers ” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “ Dealers ” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Trustee:	BNY Mellon Corporate Trustee Services Limited
Issuing and Paying Agent, Transfer Agent and Calculation Agent:	The Bank of New York Mellon, London Branch
Registrar, Paying Agent and Transfer	The Bank of New York Mellon SA/NV, Luxembourg Branch.

Agent:

Method of Issue:

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche will be completed in the final terms (the “**Final Terms**”).

Issue Price:

Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.

Form of Notes:

The Notes may be issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in “Overview of the Programme — Selling Restrictions” below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as “**Global Certificates**”.

Clearing Systems:

Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.

Initial Delivery of Notes:

On or before the issue date for each Tranche, if the relevant Global Note is a NGN, the Global Note will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN, the Global Note representing Bearer Notes or the Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes or Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the relevant Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies:

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the relevant Issuer and the relevant Dealers.

Maturities:

Subject to compliance with all relevant laws, regulations and

directives, any maturity between one month and 60 years.

Specified Denomination:

Definitive Notes will be in such denominations as may be specified in the relevant Final Terms save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount of such currency).

Fixed Rate Notes:

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Floating Rate Notes:

Floating Rate Notes will bear interest determined separately for each Series as follows:

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

Interest periods will be specified in the relevant Final Terms.

Zero Coupon Notes:

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

RPI Linked Notes:

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

Interest Periods and Interest Rates:

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

Redemption:

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

Optional Redemption:

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

Status of Notes:

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

Negative Pledge:

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

Cross Acceleration:

The Notes will contain a Cross Acceleration, all as described in

“Terms and Conditions of the Notes — Events of Default”.

Ratings:

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

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

Early Redemption:

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

Withholding Tax:

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

Governing Law:

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

Listing and Admission to Trading:

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

Selling Restrictions:

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

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

Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”)) (the “**D Rules**”) unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) (the “**C Rules**”) or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

TERMS AND CONDITIONS OF THE NOTES

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

SSE plc (“**SSE**”), Scottish Hydro Electric Power Distribution plc (“**SHEPD**”), Scottish Hydro Electric Transmission plc (“**SHE Transmission**”) and Southern Electric Power Distribution plc (“**SEPD**”) (each an “**Issuer**” and together, the “**Issuers**”) have established a Euro Medium Term Note Programme (the “**Programme**”) for the issuance of notes (the “**Notes**”) in an aggregate principal amount outstanding at any time not exceeding the Programme Limit (as defined in the Trust Deed referred to below). The Notes are constituted by an Amended and Restated Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 23 August 2018 between the Issuers and BNY Mellon Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Coupons and Talons referred to below. An Amended and Restated Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 31 July 2014 has been entered into in relation to the Notes between the Issuers, the Trustee, The Bank of New York Mellon, London Branch as initial issuing and paying agent and the other agent named in it. The issuing and paying agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

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

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

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

1 FORM, DENOMINATION AND TITLE

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

All Registered Notes shall have the same Specified Denomination.

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

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

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

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

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

2 EXCHANGES OF NOTES AND TRANSFERS OF REGISTERED NOTES

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

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

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

3 STATUS

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

4 NEGATIVE PLEDGE

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

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

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

5 INTEREST AND OTHER CALCULATIONS

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

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

(A) ISDA Determination for Floating Rate Notes

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

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

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

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below and subject to Condition 5(k), be either:

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

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

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

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

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such rates were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates

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

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

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

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

where:

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

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

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

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

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

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

- (vii) if “**Actual/Actual-ICMA**” is specified hereon,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

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

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

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

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

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

“Interest Amount” means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(k) **Benchmark discontinuation:**

(i) *Independent Adviser*

- (A) If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, with a view to the Issuer determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(k)(ii)) and, in either case, an Adjustment Spread if any (in accordance with Condition 5(k)(iii)) and any Benchmark Amendments (in accordance with Condition 5(k)(iv)).

An Independent Adviser appointed pursuant to this Condition 5(k) shall act in good faith and in a commercially reasonable manner as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, or the Noteholders or the Couponholders for any advice

given to the Issuer in connection with any determination made by the Issuer, pursuant to this Condition 5(k).

- (B) If (1) the Issuer is unable to appoint an Independent Adviser; or (2) the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with Condition 5(k)(i)(A) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this Condition 5(k)(i)(B) shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, Condition 5(k)(i)(A).

(ii) *Successor Rate or Alternative Rate*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines that:

- (A) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 5(k)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)); or
- (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 5(k)(iii)) subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(k)).

(iii) *Adjustment Spread*

If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (ii) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) *Benchmark Amendments*

If any Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 5(k) and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (i) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(k)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two directors of the Issuer pursuant to Condition 5(k)(v), the Trustee shall (at the expense of the Issuer), without any

requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition 5(k)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(k) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 17, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer:

- (A) confirming (i) that a Benchmark Event has occurred, (ii) the Successor Rate or, as the case may be, the Alternative Rate and, (iii) where applicable, any Adjustment Spread and/or the specific terms of any Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 5(k); and
- (B) certifying that the Benchmark Amendments are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Condition 5(k)(i), (ii), (iii) and (iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B)(y) and (z) will continue to apply unless and until the Calculation Agent has been notified of the Successor Rate or the Alternative Rate (as the case may be), and any Adjustment Spread and Benchmark Amendments, in accordance with Condition 5(k)(v).

(vii) *Definitions:*

As used in this Condition 5(k):

“Adjustment Spread” means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit

(as the case may be) to Noteholders and Couponholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate)
- (B) the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); (or if the Issuer determines that no such industry standard is recognised or acknowledged)
- (C) the Issuer, in its discretion, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines to be appropriate.

“Alternative Rate” means an alternative benchmark or screen rate which the Issuer following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner determines in accordance with Condition 5(k)(ii) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

“Benchmark Amendments” has the meaning given to it in Condition 5(k)(iv).

“Benchmark Event” means:

- (1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or
- (2) a public statement by the administrator of the Original Reference Rate that it will, by a specified date within the following six months, cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (3) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued; or
- (4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes, in each case within the following six months; or
- (5) it has become unlawful for any Paying Agent, Calculation Agent the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate.

“Independent Adviser” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 5(k)(i).

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

“**Relevant Nominating Body**” means, in respect of a benchmark or screen rate (as applicable):

- (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“**Successor Rate**” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

6 REDEMPTION, PURCHASE AND OPTIONS

(a) **Final Redemption:**

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

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

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

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

² Only applicable where SSE is the Issuer.

the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

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

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), ¹[Condition 6(e)(ii)], ²[Condition 6(e)(iii)] or ²[Condition 6(e)(iv)] or upon it becoming due and payable as provided in Condition 11, shall be the Final Redemption Amount unless otherwise specified hereon, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part on any Interest Payment Date (if this Note is either a Floating Rate Note or a RPI Linked Note) or at any time (if this Note is neither a Floating Rate Note nor a RPI Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 9 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders and Couponholders and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective).
- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date (that is, if the Issuer Maturity Par Call is specified to be applicable hereon, more than 90 days prior to the Maturity Date). Any such redemption of Notes shall be at the Optional Redemption Amount specified hereon together with interest accrued to the date fixed for redemption, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

If Make-Whole Redemption is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Make-Whole Redemption Date (that is, if the Issuer Maturity Par Call is specified to be applicable hereon, more than 90 days prior to the Maturity Date). Any such redemption of Notes shall be at the Make-Whole Amount which shall be

equal to the higher of the following, in each case together with interest accrued to (but excluding) the Make-Whole Redemption Date, and subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon: (a) 100 per cent. of the nominal amount of the Notes being redeemed; or (b) the price (as reported to the Issuer and the Calculation Agent by the Financial Adviser and expressed as a percentage) that provides for a Gross Redemption Yield on such Notes on the Reference Date equal (after adjusting for any difference in compounding frequency) to the Reference Bond Rate at the Specified Time on the Reference Date, plus the Redemption Margin (if any).

Where:

“Financial Adviser” means an investment banking, accountancy, appraisal or financial advisory firm with international standing that has (in the reasonable opinion of the Issuer) appropriate expertise relevant to the determination required to be made under this Condition 6(d) selected by the Issuer and approved by the Trustee.

“Gross Redemption Yield” means a yield expressed as a percentage and calculated by the Financial Adviser in accordance with generally accepted market practice.

“Redemption Margin” shall be as specified hereon.

“Reference Bond(s)” means, as at the Reference Date, a current on-the-run government security or securities having an actual or, where there is more than one Reference Bond, interpolated maturity comparable with the remaining term of the Notes that would be utilised in accordance with generally accepted market practice in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes (if the Notes were to remain outstanding to the Maturity Date), as determined by the Financial Adviser.

“Reference Bond Rate” means the actual or, where there is more than one Reference Bond, interpolated, yield per annum calculated by the Financial Adviser in accordance with generally accepted market practice by reference to the arithmetic mean of the middle market prices provided by three Reference Dealers for the Reference Bond(s) having an actual or interpolated maturity equal to the remaining term of the Notes (if the Notes were to remain outstanding to the Maturity Date).

“Reference Date” means the fifth London Business Day prior to the Make-Whole Redemption Date.

“Reference Dealer” means a bank selected by the relevant Issuer or its affiliates in consultation with the Financial Adviser which is (A) a primary government securities dealer, or (B) a market maker in pricing corporate bond issues.

“Specified Time” shall be as specified hereon.

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6(d) by the Financial Adviser, shall (in the absence of negligence, wilful default, manifest error or bad faith) be binding on the Issuer, the Calculation Agent and the Trustee, the Paying Agents and all Noteholders and Couponholders and (in the case of Registered Notes) the Registrar and the Transfer Agents and (in the absence as aforesaid) no liability to the Issuer, the Noteholders or the Couponholders shall attach to the Financial Adviser in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to the provisions of this Condition 6(d).

Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

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

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

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

- (i) If General Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon, the "**Notice Period**") redeem such Note on the Optional Redemption Date(s) at the Optional Redemption Amount specified hereon together with interest accrued to the date fixed for redemption, subject in each case to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (ii) This Condition 6(e)(ii) applies only where SHEPD, SHE Transmission or SEPD is the Issuer.

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

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

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

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

An event shall be deemed not to be a Restructuring Event if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Notes by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Notes an

investment grade credit rating (BBB-/Baa3 or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

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

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

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

- (A) on the date (the “**Relevant Announcement Date**”) that is the earlier of (1) the date of the first public announcement of the relevant Change of Control and (2) the date of the earliest Relevant Potential Change of Control Announcement (if any), the Notes carry:

- (I) a credit rating from any Rating Agency and there occurs, within the Change of Control Period, a Change of Control Rating Downgrade; or
- (II) no credit rating and a Change of Control Negative Rating Event also occurs within the Change of Control Period,

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

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

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

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

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

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

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

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

The Issuer shall, forthwith upon becoming aware of the occurrence of any event which may (after taking into account all (if any) other relevant events in relation to Disposed Assets for the purpose of this Condition 6(e)(iv)) result in a SSE Restructuring Event (a “**Potential SSE Restructuring Event**”) (a) provide the Trustee with the relevant Directors’ Report and (b) to the extent permitted by the terms of the engagement letter between the Issuer and the Reporting Accountants, provide or procure that the Reporting Accountants provide the Trustee with a copy of the Accountants’ Report. The Directors’ Report and the Accountants’ Report shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Noteholders. The Trustee shall be entitled to act, or not act, and rely on without being expected to verify the accuracy of the same (and shall have no liability to Noteholders for doing so) any Directors’ Report and/or any Accountants’ Report provided to it (whether or not addressed to it).

- (v) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a ³[Restructuring Event Put Event], ⁴[Change of Control Put Event] or ⁴[SSE Restructuring Event Put Event] has occurred, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction), give notice (a “**Put Event Notice**”) to the Noteholders in accordance with Condition 17 specifying the nature of the ³[Restructuring Event Put Event], ⁴[Change of Control Put Event] or ⁴[SSE Restructuring Event Put Event] and the procedure for exercising the ³[Restructuring Event Put Option], ⁴[Change of Control Put Option] or ⁴[SSE Restructuring Event Put Option].

If the rating designations employed by any of Moody’s or S&P are changed from those which are described in the definition of ³[Rating Downgrade], ⁴[Change of Control Rating Downgrade] or [SSE Rating Downgrade] below, or if a rating is procured from a Substitute Rating Agency, the Issuer shall determine, with the agreement of the Trustee, the rating designations of Moody’s or S&P or such Substitute Rating Agency (as appropriate) as are most

³ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

⁴ Only applicable where SSE is the Issuer.

equivalent to the prior rating designations of Moody's or S&P and this Condition 6 shall be construed accordingly.

The Trust Deed provides that the Trustee is under no obligation to ascertain whether ³[a Restructuring Event, a Negative Rating Event or a Potential Restructuring Event (as defined in the Trust Deed)], ⁴[a Change of Control Put Event, Change of Control, a Change of Control Negative Rating Event or any event which could lead to the occurrence of or could constitute a Change of Control] or ⁴[a SSE Restructuring Event, a SSE Negative Rating Event or a Potential SSE Restructuring Event] has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume without liability to any person for so doing that no such event has occurred. The Trust Deed also provides that in determining whether or not a ³[Restructuring Event] or ⁴[SSE Restructuring Event] has occurred, the Trustee shall be entitled, but not bound, to rely solely on an opinion given in a certificate signed by two directors of the Issuer.

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

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

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

- (g) **Redemption at the option of the Issuer (Issuer Maturity Par Call):** If Issuer Maturity Par Call is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon), redeem the Notes in whole, but not in part, at any time during the period commencing on (and including) the day that is 90 days prior to the Maturity Date to (but excluding) the Maturity Date, at the Final Redemption Amount specified hereon together with interest accrued (if any) to (but excluding) the date fixed for redemption, subject to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (h) **Clean-Up Call Option:** If Clean-Up Call Option is specified hereon, the Issuer may, on giving no less than 30 nor more than 60 days' irrevocable notice to the Noteholders, redeem the Notes in whole, but not in part, on the date specified in such notice at the Clean-Up Redemption Amount specified hereon together with interest accrued (if any) to (but excluding) the date fixed for redemption, subject to adjustment in accordance with Condition 7 if Indexation is specified hereon.
- (i) **Purchases:** The Issuer and any of its Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (j) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7 INDEXATION

If Indexation is specified hereon:

- (a) **Indexation:**
 - (i) The redemption amount payable pursuant to Condition 6(a), 6(b), 6(c), 6(d), 6(e), 6(f), 6(g) or 6(h) and the amount payable pursuant to Condition 11 upon repayment of the Notes, as the case may be, shall be the Early Redemption Amount, the Optional Redemption Amount, the Make-Whole Amount, ⁵[the Restructuring Event Redemption Amount], ⁶[the Change of Control Redemption Amount], ²[the SSE Restructuring Event Redemption Amount] or the outstanding nominal amount of the Notes, as the case may be, multiplied by the Index Ratio applicable to the date on which such redemption amount or repayment becomes payable.

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

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

⁵ Only applicable where SHEPD, SHE Transmission, or SEPD is the Issuer

⁶ Only applicable where SSE is the Issuer

for the time being listed thereof and cause notice thereof to be published in accordance with Condition 17.

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

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

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

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

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

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

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

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

“IFA” means the Index Figure applicable;

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

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

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

$$IFA = RPI_{m-8} \frac{(\text{Day of Calculation Date}-1)}{(\text{Days in month of Calculation Date})} \times (RPI_{m-7} - RPI_{m-8})$$

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

“IFA” means the Index Figure applicable;

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

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

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

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

(b) **Changes in Index:**

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

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

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

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

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

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

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

(x) in the case of any Note not falling due for redemption on the date for payment, if the Index so subsequently published (if published while that Note remains outstanding) is greater or less than the Index applicable by virtue of (B) above, the interest payable on

that Note on the Interest Payment Date next succeeding the date of such subsequent publication shall be increased or reduced to reflect the amount by which the interest payable on that Note on the date for payment on the basis of the Index applicable by virtue of (B) above fell short of, or (as the case may be) exceeded the interest which would have been payable on that Note if the Index subsequently published had been published on or before the second business day before the date for payment; or

- (y) in the case of any Note falling due for final redemption on the date for payment, no subsequent adjustment to amounts paid will be made.
- (iii) *Cessation of or fundamental changes to the Index*: If the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may consider reasonable), the Expert recommends for the purposes of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the Issuer or the interests of the Noteholders, as compared to the interests of the Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be published or such fundamental change in the rules governing the Index not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 17.

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

- (A) except in the case of a payment on redemption of the Notes, if the sum which would have been payable if such adjustments or such substitute index had been in effect on the due date for such provisional payment is greater or less than the amount of such provisional payment, the interest payable on the Notes on the Interest Payment Date next succeeding the last date by which the Issuer and Trustee receive such recommendation shall be increased or reduced to reflect the amount by which such provisional payment of interest fell short of, or (as the case may be) exceeded, the interest which would have been payable on the Notes if such adjustments or such substituted index had been in effect on that date; or
- (B) in the case of a payment of principal or interest on redemption of the Notes, no subsequent adjustment to amounts paid will be made.

- (iv) *Trustee*: The Trustee shall be entitled to assume that no cessation of or change to the Index has occurred until informed otherwise by the Issuer and will not be responsible for identifying or appointing an Expert save as provided in these Conditions.
- (c) **Appointment of Expert**: At any time when under these Conditions it is necessary to have, or the Trustee requests, the appointment of an Expert, the Issuer shall take such steps as are necessary to appoint an Expert approved by the Trustee and at the expense of the Issuer.

8 PAYMENTS AND TALONS

- (a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. “**Bank**” means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes**:
 - (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer agrees to be subject and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretation thereof, or any law implementing an intergovernmental approach thereto, and, save as provided in Condition 9, the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreement. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where these Conditions so require, (v) Paying Agents having specified offices in at least two major European cities and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee.

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

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

(f) **Unmatured Coupons and unexchanged Talons:**

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than RPI Linked Notes), such Bearer Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Make-Whole Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 10).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, or RPI Linked Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on

redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

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

9 TAXATION

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

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

Notwithstanding anything to the contrary contained herein, the Issuer shall be entitled to withhold and deduct any amounts required to be deducted or withheld in respect of payment of principal and/or interest made by it in respect of the Notes and the Coupons pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended, (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”), and neither the Issuer nor any other person shall be required to pay any additional amounts in respect of FATCA Withholding.

As used in these Conditions, “**Relevant Date**” in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or

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

10 PRESCRIPTION

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

11 EVENTS OF DEFAULT

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

- (i) **Non-Payment:** default is made for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (ii) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** (A) any other Indebtedness For Borrowed Money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default or (B) any such Indebtedness For Borrowed Money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Indebtedness For Borrowed Money of any person or (D) any security given by the Issuer or any Principal Subsidiary for any Indebtedness For Borrowed Money of any person or for any guarantee or indemnity of Indebtedness For Borrowed Money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a bona fide dispute as to whether the relevant Indebtedness For Borrowed Money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant Indebtedness For Borrowed Money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent, of Capital and

Reserves, and for the purposes of this paragraph (iii), “Indebtedness For Borrowed Money” shall exclude Project Finance Indebtedness; or

- (iv) **Winding up — Issuer:** any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (v) **Winding up — Principal Subsidiary:** any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or by an Extraordinary Resolution of the Noteholders; or
- (vi) **Cessation of Business:** the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member or members of the Group (other than an Excluded Subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (B) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm’s length basis or (C) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders,⁷[provided that if neither the Issuer nor any Relevant Subsidiary holds the Distribution Licence, the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (A) and (B) shall apply)]; or
- (vii) **Insolvency:** the Issuer or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Section 1 of the Insolvency Act 1986; or
- (viii) **Security Enforced:** a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit),

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

⁷ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

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

12 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

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

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

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

- (b) **Modification of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or

proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 5(k). Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

- (c) **Substitution:** The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of any Relevant Subsidiary or any wholly-owned Subsidiary (other than an Excluded Subsidiary) of the Issuer subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer, ⁸[(ii) such Relevant Subsidiary or wholly-owned Subsidiary holding the Distribution Licence or, if and, to the extent that, such Relevant Subsidiary or wholly-owned Subsidiary or the Issuer does not hold the Distribution Licence, an unconditional and irrevocable guarantee in respect of the Notes being provided by the Relevant Subsidiary and/or a wholly-owned Subsidiary of the Issuer which holds the Distribution Licence,] (iii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (iv) certain other conditions set out in the Trust Deed being complied with. Where the Notes are to have the benefit of a guarantee provided by the Issuer and a Relevant Subsidiary or a wholly-owned Subsidiary as aforesaid, such guarantee shall be on a joint and several basis.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

13 ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed, the Notes and the Coupons, but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 INDEMNIFICATION OF THE TRUSTEE

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

15 REPLACEMENT OF NOTES, CERTIFICATES, COUPONS AND TALONS

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to

⁸ Only applicable where SHEPD, SHE Transmission or SEPD is the Issuer.

Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

16 FURTHER ISSUES

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

17 NOTICES

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

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

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19 DEFINITIONS

For the purposes of these Conditions:

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

The Issuer shall use reasonable endeavours to procure that there shall at the relevant time be Reporting Accountants who have (a) entered into an engagement letter with the Issuer which shall (i) not limit the

liability of the Reporting Accountants by reference to a monetary cap, (ii) permit the Trustee to receive a copy of, and rely upon, any Accountants' Reports produced by them and (iii) be available for inspection by Noteholders at the principal office of the Trustee or (b) agreed to provide Accountants' Reports on such other terms as the Issuer and the Trustee, in its absolute discretion, shall approve.

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

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

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

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

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

"Capital and Reserves" means the aggregate of:

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

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

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

"Change of Control" means the occurrence of an event whereby any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006 as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer, shall become interested (within the meaning of Part 22 of the

Companies Act 2006 as amended) in (A) more than 50 per cent, of the issued or allotted ordinary share capital of the Issuer or (B) shares in the capital of the Issuer carrying more than 50 per cent, of the voting rights normally exercisable at a general meeting of the Issuer;

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

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

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

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

a **“Clean-Up Call Option”** may be exercised by the Issuer in the event that Notes representing an aggregate amount equal to or exceeding 80 per cent. of the initial aggregate nominal amount of the Notes of the same Series have been redeemed or purchased and, in each case, cancelled;

“Consolidated Operating Profit” means the consolidated operating profit on ordinary activities before tax and interest and before taking account of depreciation and amortisation of goodwill and regulatory assets (and, for the avoidance of doubt, excluding the impact of IAS 39 and exceptional items, as reflected in the Relevant Accounts) of the Issuer (including any share of operating profit of associates and joint ventures) determined in accordance with International Financial Reporting Standards (**“IFRS”**) by reference to the Relevant Accounts;

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

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

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

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

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

“Excluded Subsidiary” means any Subsidiary of the Issuer:

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

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

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

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

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

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

a **“Negative Rating Event”** shall be deemed to have occurred if (A) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event,

seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being);

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

“Principal Subsidiary” at any time shall mean:

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

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

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

- (i) which is incurred by an Excluded Subsidiary; or

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

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

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

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

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

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

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

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

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

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

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

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

- (i) (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements the Gas and Electricity Markets Authority (or any successor) gives the Issuer or, as the case may be, a Relevant Subsidiary, written notice of revocation of the Distribution Licence, provided that the giving of notice pursuant to paragraph 3 of Part I of the Distribution Licence as in effect on the date on which agreement is reached to issue the first Tranche of the Notes, shall not be deemed to constitute the revocation of the Distribution Licence; or
- (b) the Issuer or, as the case may be, a Relevant Subsidiary agrees in writing with the Secretary of State (or any successor) to any revocation or surrender of the Distribution Licence; or
- (c) any legislation (whether primary or subordinate) is enacted terminating or revoking the Distribution Licence, except in any such case in circumstances where a licence or licences on (in the opinion of the Trustee after consultation with the Issuer) no less favourable terms is or are granted to the Issuer or a Relevant Subsidiary and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or becomes the primary obligor (jointly or severally where appropriate) under the Notes in accordance with Condition 12(c); or
- (ii) any modification, other than a modification which is of a formal, minor or technical nature, is made to the terms and conditions of the Distribution Licence on or after the date on which agreement is reached to issue the first Tranche of the Notes unless two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that such modified terms and conditions are not materially less favourable to the business of the Issuer; or
- (iii) any legislation (whether primary or subordinate) is enacted removing, reducing or qualifying the duties or powers of the Secretary of State for Trade and Industry (or any successor) and/or the Gas and

Electricity Markets Authority (or any successor) under Section 3A of the Electricity Act unless two directors of the Issuer have certified in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) that the legislation is not materially adverse to the business of the Group; or

- (iv) (a) the Balancing and Settlement Code is terminated and not replaced by one or more agreements, commercial arrangements or open market mechanisms or frameworks, in each case on terms which two directors of the Issuer certify in good faith to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or
- (b) the Issuer or, as the case may be, a Relevant Subsidiary is given an Expulsion Notice (as defined in the Balancing and Settlement Code) pursuant to Section A.5.2.4 of the Balancing and Settlement Code requiring it to cease to be a party thereto; or
- (c) there shall have occurred a Default (as defined in the Balancing and Settlement Code) under Section H.3.1.1 of the Balancing and Settlement Code in relation to the Issuer or, as the case may be, a Relevant Subsidiary, and such default remains unremedied or unwaived; or
- (d) the Issuer or, as the case may be, a Relevant Subsidiary ceases to be a party to the Balancing and Settlement Code for any reason (other than pursuant to (b) and (c) above) except where a Distribution Licence is granted to a Relevant Subsidiary or, as the case may be, another Relevant Subsidiary as contemplated by paragraph (a) above and at or about the same time all rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary, pursuant to the Balancing and Settlement Code, which are attributable to such licence are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may approve (such approval not to be unreasonably withheld or delayed having regard to the interests of Noteholders) or such Relevant Subsidiary enters into one or more agreements, commercial arrangements or open market mechanisms or frameworks in relation to such licence which two directors of the Issuer certify to the Trustee (upon which certification the Trustee shall be entitled to rely absolutely without liability) to be not materially less favourable to the business of the Group; or
- (e) any modification is made to the Balancing and Settlement Code in accordance with its terms or any legislation (whether primary or subordinate) is enacted terminating or modifying the Balancing and Settlement Code, provided that any such modification is material in the context of the rights and obligations of the Issuer or, as the case may be, a Relevant Subsidiary under the Balancing and Settlement Code; and provided further that any modification shall to the extent it grants or confers powers or discretions on the Gas and Electricity Markets Authority (or any successor) under or in respect of the Balancing and Settlement Code be deemed not to be material as aforesaid, but for the avoidance of doubt, any modification to the Balancing and Settlement Code made by the Gas and Electricity Markets Authority (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would be a material modification as provided above shall not, by virtue of this provision be deemed not to be material;

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

“**Restructuring Period**” means:

- (i) if at any time a Restructuring Event occurs the Notes are rated, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or

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

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

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

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

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

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

“SSE Rating Downgrade” shall be deemed to have occurred in respect of the SSE Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency at the invitation of the Issuer (or where there is no rating from any Rating Agency assigned at the invitation of the Issuer, the then current rating (if any) assigned to the Rated Securities by any Rating Agency of its own volition) is: (i) withdrawn or reduced from a rating of at least BBB or Baa2 (or their respective equivalents for the time being) to a rating below BBB or Baa2 (or their respective equivalents for the time being) or, (ii) if a Rating Agency shall already have rated the Rated Securities below BBB or Baa2 (or their respective equivalents for the time being), the rating is lowered at least one full rating notch (for example, BBB/ Baa2 to BBB-/Baa3 (or, in each case, their respective equivalents for the time being); provided that a SSE Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular SSE Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce publicly or confirm in writing to the Issuer or the Trustee that its decision resulted, in whole or in part, from the occurrence of, or any event or circumstance comprised in or arising as a result of, or in respect of, the applicable SSE Restructuring Event (whether or not the SSE Restructuring Event shall have occurred at the time of the SSE Rating Downgrade);

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

“SSE Restructuring Period” means:

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

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

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

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

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

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

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

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

20 GOVERNING LAW

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

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

1 INITIAL ISSUE OF NOTES

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

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

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

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

2 RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

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

3 EXCHANGE

3.1 Temporary Global Notes

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

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

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

3.2 Permanent Global Notes

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

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

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

3.3 Permanent Global Certificates

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

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

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

3.4 Partial Exchange of Permanent Global Notes

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

3.5 Delivery of Notes

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

3.6 Exchange Date

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

4 AMENDMENT TO CONDITIONS

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

4.1 Payments

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

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

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

4.2 Prescription

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

4.3 Meetings

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

4.4 Cancellation

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

4.5 Purchase

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

4.6 Issuer's Option

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

4.7 Noteholders' Options

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

4.8 NGN nominal amount

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

4.9 Trustee's Powers

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

4.10 Notices

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

5 Electronic Consent and Written Resolution

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

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

entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Trustee, as the case may be, by (a) accountholders in the clearing systems with entitlements to such Global Note or Global Certificate and/or, where (b) the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the Issuer nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

USE OF PROCEEDS

An amount equal to the net proceeds from each issue of each Tranche of Notes will be applied, as indicated in the applicable Final Terms, either:

- (a) for general corporate purposes; or
- (b) exclusively to finance or refinance, in whole or in part, Eligible Green Projects.

“Eligible Green Projects” means (i) projects relating to the production of renewable electricity from onshore and offshore wind power and (ii) projects relating to onshore renewable energy transmission network infrastructure.

Eligible Green Projects will be selected on the basis of a set of environmental and social criteria determined by the Issuer and made available in the investor relations section of the Issuer’s website (<http://sse.com/investors/>), as well as an external review which will be provided by an able and independent consultant.

Only Tranches of Notes exclusively financing or refinancing Eligible Green Projects will be designated “Green Bonds” and will be identified as such in the relevant Final Terms.

GREEN BOND FRAMEWORK

On 25 August 2017, SSE published a green bond framework in accordance with the 2017 edition of the Green Bond Principles published by the Executive Committee of the Green Bond Principles with the support of the International Capital Market Association (ICMA).

The SSE Green Bond Framework is available at: <http://sse.com/investors/>

SSE has appointed DNV GL to assess the sustainability of SSE Green Bond Framework. DNV GL has reviewed the content as well as its alignment with the GBP, providing SSE with a second party opinion. The objective of this opinion is to provide investors with an independent assessment on the SSE Green Bond Framework. The second party opinion provided by DNV GL is available at: <http://sse.com/investors/>

DESCRIPTION OF THE ISSUERS

SSE plc (“SSE”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC117119 on 1 April 1989 for an unlimited term. SSE was originally incorporated as North of Scotland Electricity plc., and on 1 August 1989 it changed its name to Scottish Hydro-Electric plc. In December 1998, Scottish Hydro-Electric plc merged with Southern Electric plc, whereby Scottish Hydro-Electric plc acquired Southern Electric plc and subsequently changed its name on 14 December 1998 to Scottish and Southern Energy plc, with a further name change to SSE plc on 30 September 2011 (SSE and its subsidiaries being the “SSE Group”). SSE is the broadest energy based company in the UK, being the only company operating in the generation, transmission, distribution and supply of energy. It has a market capitalisation of £12.7 billion and was the 36th largest company in the FTSE 100 as at 31 July 2018.

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

Board of Directors of SSE

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

Name	Title
Richard Gillingwater CBE	Chairman
Alistair Phillips-Davies	Chief Executive
Gregor Alexander	Finance Director
Martin Pibworth	Wholesale Director
Crawford Gillies	Senior Independent Director
Tony Cocker	Non-Executive Director
Peter Lynas	Non-Executive Director
Dame Susan Bruce DBE	Non-Executive Director
Helen Mahy CBE	Non-Executive Director

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

- **Richard Gillingwater CBE** is Chairman of Henderson Group plc, Senior Independent Director of Whitbread plc and Pro-Chancellor of Open University.
- **Alistair Phillips-Davies** is a member of the Scottish Energy Advisory Board and the Accenture Global Energy Board and also Vice President of Eurelectric.
- **Gregor Alexander** is Chairman of Scotia Gas Networks Ltd and a non-Executive Director of Stagecoach Group plc.
- **Martin Pibworth** has no significant outside activities currently.
- **Crawford Gillies** is Chairman of The Edrington Group Ltd and Senior Independent Director of Barclays plc.
- **Tony Cocker** is Chairman of Affinity Water Ltd and Infinis Energy Management Ltd and Deputy Chairman and Governor of Warwick Independent Schools Foundation.
- **Peter Lynas** is Group Finance Director of BAE Systems plc and member of the BAE Systems Inc. Board in the US.

- **Dame Susan Bruce DBE** is Convenor of Court of the University of Strathclyde, Trustee of the Prince's Foundation, Chair of the Royal Scottish National Orchestra, Court Member of the Merchant Company of Edinburgh, Electoral Commissioner, The Electoral Commission, Governor of Erskine Stewart Melville School, and Chair of Nominations Committee for National Trust Scotland.
- **Helen Mahy CBE** is Chairman of the Renewables Infrastructure Group and of MedicX Fund Ltd and a non-Executive Director of Bonheur ASA.

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

Acquisitions and Disposals

Sale of a stake in Clyde Windfarm (Scotland) Ltd ("Clyde")

On 28 August 2017, the Clyde Extension windfarm, comprising 54 turbines generating an additional 172.8MW, reached its Commercial Operation Date. In March 2016, SSE announced the initial sale of 49.9 per cent. of Clyde Windfarm (Scotland) Limited equating to 349.6MW of the existing operational wind farm. It was agreed between the joint venture partners that when Commercial Operation began, the equity stake in Clyde jointly owned by Greencoat UK Wind Plc ("UKW") and GLIL Infrastructure LLP ("GLIL") would be diluted from 49.9 per cent. to 30 per cent. with the Group retaining 70 per cent.

On 4 September 2017, the Group completed the disposal of a further 5.0 per cent. equity stake in Clyde to the existing joint venture partners for consideration of £67.8 million. As at 31 March 2018, the Group's shareholding in Clyde was therefore 65 per cent. with UKW and GLIL jointly owning 35 per cent.

As part of that disposal agreement, UKW and GLIL also had the option to buy a further 14.9 per cent. of Clyde, equating to 77.8MW, for a cash consideration of £202.2 million. This option could be exercised between 1 April 2018 and 30 June 2018 and would result in SSE's equity share in Clyde reducing to 50.1 per cent. with UKW and GLIL owning the remaining 49.9 per cent.

On 8 May 2018, UKW and GLIL announced that they would exercise their option to purchase 14.9 per cent. of Clyde on 30 May 2018 for consideration of £202.2 million. Following the sale of this stake, the Group will retain 50.1 per cent.

Sale of stake in Ferrybridge MFE2

On 7 September 2017, the Group disposed of a 50 per cent. equity stake in its subsidiary Ferrybridge MFE2 Limited to Wheelabrator Technologies Inc. for consideration of £62.5 million.

SSE Energy Services transaction

On 8 November 2017, SSE set out that following discussions with Innogy SE ("Innogy"), SSE had identified an opportunity – subject to the necessary regulatory and shareholder approvals – to combine its household energy and services business in Great Britain with that of Innogy's subsidiary, npower, to create a new, independent company to be listed on the London Stock Exchange. Both SSE and Innogy believe the planned SSE Energy Services transaction has potential to drive real benefits for customers, employees, shareholders and the wider energy market by combining the expertise and resources of two established providers with the focus and agility of an independent supplier in what would be a unique model in the market. With its own dedicated Board and expert management team, the new company would be well positioned to respond to changing customer and stakeholder expectations by becoming more efficient, agile and innovative.

npower is one of Great Britain's largest suppliers of electricity and gas, and is currently part of the Innogy Group. As of 31 March 2018, npower served around 4.8 million accounts across the United Kingdom and Ireland.

The planned SSE Energy Services transaction is subject to approval by the CMA and a merger notice was formally submitted to the CMA on 28 February 2018. Following an initial Phase One investigation, on 8 May 2018, the CMA referred the planned transaction for a so-called 'Phase 2' investigation, by a group of independent panel

members. The deadline for the final report from that investigation is 22 October 2018. The transaction has now been approved by the shareholders of SSE in a general meeting held on 19 July 2018. As stated in November 2017, significant synergies are also anticipated. Taking these timetables into account, the planned SSE Energy Services transaction remains on track for completion in the last quarter of the 2018 calendar year or first quarter of 2019. SSE Energy Services accounted for £278.7 million of the SSE Group's adjusted operating profit for the year ended 31 March 2018 (compared to £273.5 million for the year ended 31 March 2017) and £4,154.6 million of the SSE Group's revenue for the year ended 31 March 2018 (compared to £4,015.3 million for the year ended 31 March 2017).

Following completion of the SSE Energy Services transaction, SSE Energy Services will no longer form part of the SSE Group. It should be noted that consideration for the transaction will be a dividend in specie to SSE shareholders (who will receive shares in the new independent company resulting from the transaction) rather than payment being made into the SSE Group. Such dividend in specie will be equal to the aggregate book value of SSE's interest in SSE Energy Services.

Until such time as CMA approval is given and the transaction is completed, SSE Energy Services and npower remain entirely separate and compete with one another as normal. However, integration planning work is under way to make necessary plans and preparations for the new business, to the extent allowed within the letter and spirit of competition law. A number of key milestones have already been reached, including the appointment of Katie Bickerstaffe as Chief Executive Designate of the future combined business. Katie will take up her new appointment later this year and will lead the work to prepare for the formation and listing of the new company. Her role during that period will not include any involvement in the leadership or management of either existing organisation.

Scottish Hydro Electric Power Distribution plc

Scottish Hydro Electric Power Distribution plc ("SHEPD") was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC213460 on 4 December 2000 for an unlimited term, and is a 100 per cent. indirectly owned subsidiary of SSE. SHEPD was originally incorporated as Dunwilco (847) Limited, and on 8 January 2001 it changed its name to SSE Distribution (North) Limited. On 8 March 2001 it changed its name to Scottish Hydro-Electric Power Distribution Limited and on 25 August 2006 it changed again to become Scottish Hydro-Electric Power Distribution plc. On 2 February 2007 the hyphen was dropped and it became Scottish Hydro Electric Power Distribution plc.

The north of Scotland electricity distribution business of SSE was transferred to SHEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SHEPD's principal activity is the distribution of electricity to around 870,000 customers in the north of Scotland. It currently has over 49,000 kilometres of electricity mains on commission and also provides electricity connections within SHEPD's licensed area and owns and operates a number of the out of area electricity networks in the rest of Scotland.

SHEPD is the subject of incentive-based regulation by the industry regulator, the OFGEM, which sets the prices that can be charged for the use of the electricity network, the allowed capital and operating expenditure, within a framework known as the price control. In broad terms, OFGEM seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. OFGEM also places specific incentives on companies to improve their efficiency and quality of service. SHEPD is currently in RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control period which runs for eight years from 1 April 2015 until 31 March 2023.

SHEPD's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;

- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various OFGEM schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the regulated asset value (“**RAV**”) of the business and so secure increased revenue;
- engage constructively with the regulator, OFGEM, to secure regulatory outcomes that meet the needs of customers and investors; and
- engage with the wider networks industry and other stakeholders to define and implement the process of distribution companies moving to a Distribution System Operator (“**DSO**”) role.

Board of Directors of SHEPD

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

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— <i>Board of Directors of SSE</i> ” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Katherine Marshall	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities
Dale Cargill	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

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

Scottish Hydro Electric Transmission plc

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

SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,106km of high voltage overhead lines and underground cables covering around 70 per cent. of the land mass of Scotland, serving remote and in some cases island communities. As the licensed transmission company for an area with a significant amount of generation from renewable resources seeking to connect to the electricity network, SHE Transmission is required to ensure that there is sufficient capacity for projects committed to generating electricity.

SHE Transmission is the subject of incentive-based regulation by the industry regulator, OFGEM, which sets the revenue that is allowed to be recovered for use of the network, the allowed capital and operating expenditure, within a framework known as the price control. SHE Transmission is currently in RIIO-T1 (Revenue = Incentives + Innovation + Outputs) price control period which runs for eight years from 1 April 2013 until 31 March 2021. In broad terms, OFGEM seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. The RIIO price controls, which are common to all electricity and gas businesses regulated by OFGEM, sees additional emphasis placed on innovation, incentives and outputs, and require regulated businesses to take on additional risk and reward mechanisms, with the possibility of outperformance resulting in additional income or underperformance resulting in penalties.

SHE Transmission's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure and the delivery of the capital expenditure programme;
- provide good performance in areas such as reliability of supply, customer service and innovation;
- ensure there is sufficient network capacity for those seeking to generate electricity from renewable and other sources within the licensed network area;
- grow the RAV of the business, and so, secure increased revenue; and
- engage constructively with the regulator, OFGEM, to secure regulatory outcomes that meet the needs of customers and investors.

Board of Directors of SHE Transmission

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

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— <i>Board of Directors of SSE</i> ” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Katherine Marshall	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities
Dale Cargill	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

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

Southern Electric Power Distribution plc

Southern Electric Power Distribution plc (“SEPD”) was incorporated with limited liability in England and Wales under the Companies Act 1985 with registration number 04094290 on 23 October 2000 for an unlimited term and

is a 100 per cent. indirectly owned subsidiary of SSE. SEPD was originally incorporated as Dunwilco (828) Limited, and on 10 January 2001 changed its name to SSE Distribution (South) Limited with a further name change to Southern Electric Power Distribution plc on 6 March 2001.

The south of England electricity distribution business of SSE was transferred to SEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SEPD's principal activity is the distribution of electricity to over 3.2 million customers in the South of England. It currently has around 80,000 kilometres of electricity mains on commission. SEPD also provides electricity connections within SEPD's licensed area and owns and operates a number of out of area electricity networks in the rest of England & Wales.

SEPD is the subject of incentive-based regulation by the industry regulator, the OFGEM, which sets the prices that can be charged for the use of the electricity network, the allowed capital and operating expenditure, within a framework known as the price control. In broad terms, OFGEM seeks to strike the right balance between attracting investment in electricity networks, encouraging companies to operate the networks as efficiently as possible and ensuring that prices for customers are no higher than they need to be. OFGEM also places specific incentives on companies to improve their efficiency and quality of service. SEPD is currently in RIIO-ED1 (Revenue = Incentives + Innovation + Outputs) price control period which runs for eight years from 1 April 2015 until 31 March 2023.

SEPD's strategy and main objectives are to:

- comply fully with all electricity network safety standards and environmental requirements;
- ensure that the electricity network is managed as efficiently as possible, including maintaining tight controls over operational expenditure;
- provide good performance in areas such as reliability of supply, customer service and innovation and thus earn additional incentive-based revenue under the various OFGEM schemes;
- deliver efficient and innovative capital expenditure programmes, so that the number and duration of power cuts experienced by customers is kept to a minimum;
- grow the RAV of the business and so secure increased revenue;
- engage constructively with the regulator, OFGEM, to secure regulatory outcomes that meet the needs of customers and investors; and
- engage with the wider networks industry and other stakeholders to define and implement the process of distribution companies moving to a Distribution System Operator (DSO) role.

Board of Directors of SEPD

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

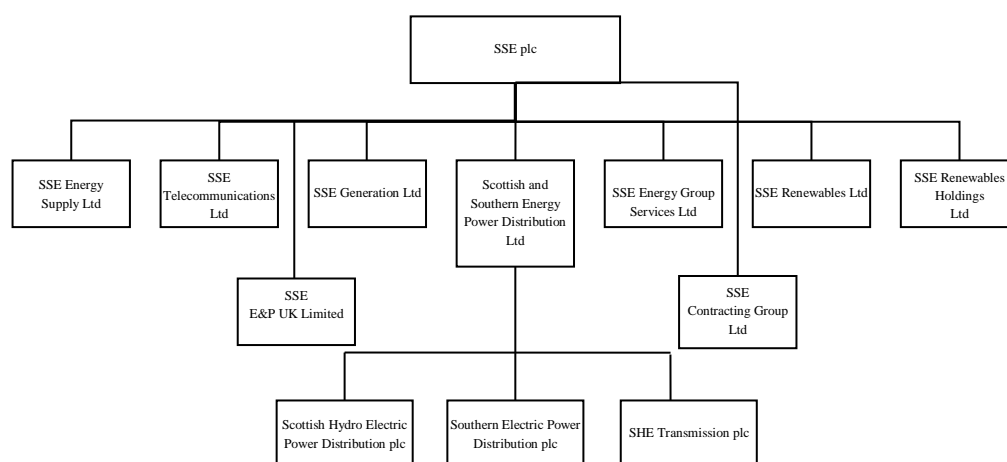
Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See “— <i>Board of Directors of SSE</i> ” above)
Steven Kennedy	Director	No significant outside activities
Colin Nicol	Director	No significant outside activities
Katherine Marshall	Director	No significant outside activities
Stuart Hogarth	Director	No significant outside activities
David Gardner	Director	No significant outside activities
Rachel McEwen	Director	No significant outside activities

Name	Title	Significant Outside Activities
Dale Cargill	Director	No significant outside activities
David Rutherford	Non-Executive Director	No significant outside activities
Gary Steel	Non-Executive Director	No significant outside activities

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

The SSE Group

SSE Group — Principal Subsidiaries as at 31 July 2018



2018 marks the 75th anniversary of the Hydro Electric Development (Scotland) Act, which paved the way for the North of Scotland Hydro Electric Board to construct hydroelectric schemes across the north of Scotland and to connect homes, crofts and farms to the electricity network for the first time. This Board later became Scottish Hydro Electric. It also marks the 70th anniversary of the formation of the Southern Electricity Board, which combined almost 50 companies and local authority undertakings to create a regional electricity distribution and supply company, providing electricity (sometimes for the first time) to people across central southern England. This Board later became Southern Electric.

2018 also marks the 20th anniversary of Scottish Hydro Electric and Southern Electric coming together to create SSE (previously Scottish and Southern Energy).

SSE is proud of what it has achieved over many years and has always sought to draw on experience to build a strong future. This means it has been, and remains committed to, taking the right decisions in each of its businesses to secure the right outcomes for energy customers and other stakeholders who have an interest in SSE and in the wider energy sector.

Each of the anniversaries occurring in 2018 is the result of past decisions to embrace change and to adapt to the economic, social and technological requirements of energy customers and of society as a whole. The extent of change now taking place in the energy sector is unprecedented; and the needs of customers and society are evolving rapidly.

It was SSE's continuing commitment to embrace change and adapt to the needs of customers that led to its decision in November 2017 to enter into an agreement with Innogy in respect of a proposed demerger of SSE's household energy and services business in the UK (now named SSE Energy Services) and subsequent combination of that business with Innogy's subsidiary npower to form a new independent UK-based group.

This transaction is subject to regulatory approvals, but it is designed to renew SSE in a way that will bring benefits to SSE and to energy customers, enabling SSE to draw on its past and build for the future. See “– *Acquisitions and Disposals*” above.

Following the planned SSE Energy Services transaction, SSE’s strategy will focus on creating value for shareholders and society from developing, owning and operating energy and related infrastructure and services in a sustainable way.

For SSE this means being focused on earning returns for shareholders and making a positive economic and social contribution to the countries in which it operates; being efficient in developing, owning and operating infrastructure and related services and being agile in creating and securing value from them; and maintaining a range of complementary business activities with a depth of insight into a core sector and doing things responsibly.

Subject to the completion of the planned SSE Energy Services transaction, SSE will have an ownership interest in five economically regulated energy networks, four classes of renewable energy capacity, three types of thermal electricity generation, two B2B businesses and a telecoms network extending to 13,700km.

SSE seeks to be an efficient operator of assets, putting safety first and being a company that energy customers and users can rely on. It is also committed to disciplined investment in assets that complement its business and secure returns which are clearly greater than the cost of capital and enhance adjusted earnings per share. In developing, owning and operating assets, SSE retains the option of realising value from those assets where it is in the interests of shareholders and other stakeholders, and where it presents opportunities to support future investment.

The SSE Group of businesses is evolving, so there is a greater focus on infrastructure and related services that are more aligned to SSE’s core competences. SSE’s core businesses will be economically regulated energy networks and renewable sources of energy, complemented by other flexible power generation.

SSE will also have a range of other complementary businesses, which benefit from direct and indirect synergies and in so doing have options for the future. In a fast-changing energy and infrastructure sector, optionality will remain key and it is for this reason that SSE believes it makes sense to retain core and complementary businesses and in so doing maintain a view of other long-term considerations and options.

Networks

SSE has an ownership interest in five economically-regulated energy network companies: (i) Scottish Hydro Electric Transmission plc (100 per cent.); (ii) Scottish Hydro Electric Power Distribution plc (100 per cent.); (iii) Southern Electric Power Distribution plc (100 per cent.); (iv) Scotland Gas Networks plc (33.3 per cent.); and (v) Southern Gas Networks plc (33.3 per cent.). In this Prospectus, this business segment is referred to as “Networks”.

The adjusted operating profit for Networks was £763.1 million for the financial year ended 31 March 2018, which was 42 per cent. of the Group’s adjusted operating profit (over the past five years electricity distribution, electricity transmission and gas distribution have contributed ranges of 22-27 per cent., 7-16 per cent. and 9-15 per cent., respectively, of adjusted operating profit of the SSE Group). SSE estimates that the total Regulated Asset Value (“RAV”) of its economically-regulated ‘natural monopoly’ business was £8,304 million as at 31 March 2018, up £625 million from £7,679 million at 31 March 2017. As at 31 March 2018, the RAV comprised around: (i) £3,070 million for electricity transmission; (ii) £3,406 million for electricity distribution; and (iii) £1,828 million for gas distribution (i.e. 33.3 per cent. of Scotland Gas Network plc and Southern Gas Network plc’s total RAV), compared with the RAV as at 31 March 2017 which comprised around: (i) £2,685 million for electricity transmission; (ii) £3,246 million for electricity distribution; and (iii) £1,748 million for gas distribution. SSE’s capital expenditure and investment programme for its electricity networks in the five years to 2023 is forecast to be around £2.8 billion. This will support future earnings and growth with the RAV on course to reach £10 billion by 2023, across SSE’s electricity and gas networks interests (which would be a compound annual growth rate of approximately 3.6 per cent. and broken down as £3.8 billion for transmission, £4.1 billion for distribution and £2.1 billion for SGN (SSE share).

Through price controls, OFGEM sets the framework through which network companies can earn index-linked revenue through charges levied on users to cover costs and earn a return on regulated assets. These economically-regulated, lower-risk businesses provide relative predictability and stability for SSE and balance its activities in the market-based parts of the energy sector. They are core to SSE's strategy in the short, medium and long-term.

The commitment to place its stakeholders at the heart of its business will help ensure Scottish and Southern Electricity Networks ("SSEN") is well placed to adapt to the evolution of the regulatory framework, RIIO2, and to the enhanced and enduring role its customers and stakeholders will play in the development of its future business plans.

In September 2016, SSE's three electricity networks businesses adopted a common trading name as SSEN. This new name and an accompanying rebranding process were developed following extensive engagement with customers, stakeholders and employees.

This change responds to the operating environment under the RIIO price controls, which incentivise all network operators to engage effectively with their customers and stakeholders in developing and implementing their business plans. SSEN believes that adopting a clearer, simpler and more distinctive identity will help to deliver improved accountability to the communities it serves, supporting its performance against key incentives.

On 7 March 2018, OFGEM published a consultation on the regulatory framework for the next price control periods, RIIO-2, which for SSE will run from April 2021 for its electricity transmission business and its share in SGN; and from April 2023 for its two electricity distribution businesses.

In its consultation, OFGEM has set out that it expects the range of available returns for network businesses to be lower for the next round of price controls, while maintaining high levels of innovation and reliability. It has also set out its strongly "minded to" position to revert to five-year price control periods and confirmed a stronger voice for customers and stakeholders in the development of price control business plans through the establishment of independent user groups and panels.

Despite its focus on lower returns, OFGEM has confirmed it is still expected that high performing companies will continue to be rewarded through outperformance of the incentive based regulatory framework.

SSE will continue to engage constructively with OFGEM and other stakeholders as the regulator further develops its proposals for RIIO-2, helping to ensure the evidence base is robust, the outcomes are clear and the views of customers, communities, stakeholders and investors are fully considered.

SSEN continues to place its customers and stakeholders at the forefront of its decision making and during 2017/18 it held three major stakeholder engagement events for each of its three licenced electricity networks. The events focused on SSEN's performance against its business plan and will lead to a number of changes to its practices and priorities during 2018/19 and beyond as a direct result of the feedback received.

SSEN's independent Stakeholder Advisory Panel is now firmly established and working alongside its Board, and continues to provide key external input to help scrutinise business performance in meeting SSEN's business plan commitments.

In January 2018, SSEN also established the industry's first Inclusive Service Panel (the "**Panel**"), bringing together representatives with expertise ranging from mental and physical disability to religious diversity and equality. The Panel is already providing invaluable insight and making practical recommendations to help ensure SSEN delivers a truly inclusive service for all.

Electricity Transmission

SSEN, operating under licence as Scottish Hydro Electric Transmission plc, is responsible for maintaining and investing in the electricity transmission network in the north of Scotland.

In addition to the base rate of return ("**WACC**") on the RAV, SSEN are able to earn incentives as part of the RIIO framework. In RIIO-T1, the financial incentives available are driven primarily by totex outperformance and the

potential to deliver savings in capital investment to the benefit of customers. Given the significant capital investment programme that SSEN has undertaken, the outcome of efficiency savings will be dependent on the successful completion of multi-year large scale projects and the close out of RIIO-T1 after 2021. It is currently expected that SSEN will deliver totex savings over the course of RIIO-T1 of which, under the price control agreement, 50 per cent. will be retained by SSEN, supporting returns for RIIO-T1, with the remaining 50 per cent. returned to customers.

SSEN's first priority is to provide a safe and reliable supply of electricity to the communities it serves. SSEN has established a dedicated and experienced team within its transmission business to deliver operational excellence, including improved asset management and timely preparation for the introduction of new types of plant and technology.

During the current period of rapid growth in transmission development, including commissioning of substantial new assets and the connection of large volumes of renewable generation capacity, SSEN has maintained an impressive reliability of over 99.9 per cent. in 2017/18.

Connecting renewable electricity generation

SSEN's strategic priority for the RIIO-T1 period has been to enable the transition to a low carbon economy through building the transmission infrastructure necessary to connect and transport renewable energy.

Since the beginning of RIIO-T1, the installed renewable electricity generation capacity connected to SSEN's transmission network has grown significantly, from 3.7GW to over 5GW and is forecast to grow to over 6GW by the end of the current price control period. This successful and timely connection of renewable electricity generation is contributing significantly to the UK Government, renewable and climate change targets.

During 2017/18, generation assets connected to SSEN's transmission network included Stronelairst wind farm (228MW); and Aberdeen Offshore Windfarm (96MW), both of which were successfully connected during March 2018.

SSEN continues to work with its generation customers to provide timely and efficient connections to its network, including Dorenell wind farm (220MW) due to connect in 2018/19; Beatrice Offshore Wind Farm (588MW) also due to connect in 2018/19; and Moray Offshore Renewable Limited ("MORL") (504MW) due to connect in 2020/21.

Since the start of the RIIO-T1 price control, SSEN's capital investment in its transmission network has totalled over £2.3 billion, with this investment playing a pivotal role in providing the key national infrastructure to facilitate the UK's transition to a low carbon economy and a largely decarbonised energy system.

SSEN continues to make progress with the delivery of its Caithness-Moray transmission link. With an agreed allowance of £1.1 billion, the project is the largest single investment undertaken by any part of the SSE group to date. Construction progress on most aspects of the project continues to be excellent, although as with any project of this size and complexity there are challenges to overcome in terms of construction risk and quality assurance. SSEN continues to work very closely with its key contractors to make the necessary progress in the coming months so that the commissioning and energising of the reinforcement is successful and remains on track for delivery by the end of 2018.

Despite the changes affecting onshore wind policy, SHE Transmission still has a healthy pipeline of projects for the remaining three years of the current price control period. This comprises:

- planned projects associated with on and offshore wind generation developments; and
- projects to renew ageing infrastructure dating back to the 1950s and 1960s.

These projects represent a forecast pipeline of investment of around £900 million in the next three years and mean the business is on track to increase the Transmission RAV to around £3.6 billion by the end of the current price

control period in 2021. This investment pipeline, plus a further £300 million of Transmission investment and capital expenditure in the period to 2023, means the RAV is forecast to grow to £3.8 billion by 2023. This total of £1.2 billion of spend in the five years to 2023 is one component of SSE's Group investment and capital plans of £6 billion over the five years to 2023.

In addition to its base case investment and capital plans of £1.2 billion, SHE Transmission has visibility on a further £700 million of contingent projects that are dependent on the progress of onshore wind developments against a continued uncertain policy regime. Several of these projects relate to potential onshore reinforcements in Argyll and Kintyre and across the Highlands. This list also includes projects which came forward in January 2018, when the System Operator, National Grid, published its Network Options Assessment ("NOA") report, which gave SSEN the signal to proceed with plans to reinforce the existing North East and East Coast onshore transmission system.

Once complete, the reinforcements will provide additional network capacity to facilitate the planned connection of significant offshore wind generation across the north east of Scotland, the increase in transmission entry capacity ("TEC") at Peterhead Power Station and the proposed NorthConnect interconnector to Norway.

The potential transmission links to the Scottish islands groups provide further potential for future growth. Following confirmation that the UK Government intends to allow remote island onshore wind to complete in the next Contracts for Difference auction in spring 2019, SSEN continues to work with its generation customers and other stakeholders across the three island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation.

In March 2018, SSEN submitted to OFGEM a Needs Case for the Orkney transmission link. SSEN's proposed solution would deliver a phased approach to reinforcement, which will initially deliver a single 220MW subsea cable in October 2022, followed by a second cable of similar specification once further generation has committed and the economic case has been made for the further investment.

SSEN also intends to submit Needs Cases for both the Western Isles and Shetland during the second half of 2018 and will continue to engage positively and constructively with developers, OFGEM, Government and other stakeholders to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed. Together, these three island links could provide an investment opportunity of £1.5 billion.

In January 2018, OFGEM published an update to its plans to introduce competition into on-shore electricity transmission for new, separable and high value on-shore transmission assets. With a strong track record for connecting renewable energy developments on time and within budget, SSEN believes the experience it has gained both in-house and with its supply chain means that it is well placed to participate in competitive delivery arrangements.

SSEN remains supportive in principle of the introduction of competition, where it can be clearly demonstrated that it delivers benefits to energy customers and the wider economy as well as maintaining the efficient delivery of transmission infrastructure. It does, however, have a number of concerns about its implementation. In particular, SSEN believes OFGEM's proposals would effectively reopen the current price control without following due process; and they are not underpinned by legislation and they risk delays to the delivery of well-established and advanced projects.

For these reasons, SSEN believes competition should not be implemented before the beginning of the next price control in order that these material factors be adequately addressed in an open and transparent manner and SSEN will continue to engage constructively with OFGEM and other stakeholders as part of this process.

SSEN's main focus during 2017/18 has been on future energy scenarios across the north of Scotland, with extensive consultation and engagement with key stakeholders helping SSEN identify the likely network requirements for the next price control. This has ranged from future energy trends; the future outlook for electricity

generation, including repowering of ageing onshore wind farms; as well as the likely speed and scale of the electrification and decarbonisation of heat and transport.

SSEN will undertake further engagement and consultation with key stakeholders in the year ahead, including its Stakeholder Advisory Panel and the soon to be established User Group and Industry Panels, which will form a key component of the RIIO2 framework. This research and engagement will help SSEN build a credible and evidence-based business plan for submission to OFGEM in 2019.

Electricity Distribution

SSEN is responsible for maintaining electricity distribution networks that supply over 3.7 million homes and businesses, operating under licence as **SHEPD** north of the central belt of Scotland, the Mull of Kintyre and the Scottish Islands and as **SEPD** in central southern England.

The total volume of electricity distributed by SEPD and SHEPD during the financial year to 31 March 2018 was 39.2TWh, compared with 39.3TWh in the previous year. Capital expenditure in electricity distribution networks was £326.1 million in the year to 31 March 2018, compared to £284.7 million in the previous year.

SSEN is now three years into the RIIO-ED1 price control and continues to deliver significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making.

SSEN's performance is assessed against the commitments made in its business plan and this drives the revenue which is earned. The key areas addressed are: network availability and reliability; social obligations; safety; environmental impact; connections; and customer satisfaction.

The outcomes of the incentive based framework within which SSEN operates are increasingly dependent on customer opinion and feedback, providing opportunities for additional earnings through a range of incentive schemes. The additional incentive based performance is measured against: The Interruption Incentive Scheme; Ofgem Customer Satisfaction Measures; Complaints Performance; Stakeholder Engagement and Customer Vulnerability; and Incentive in Connections Engagement. A requirement for continual improvement is built into the incentives framework, this means if performance measures do not demonstrate improvement year on year, incentive income falls.

By making a concerted effort to focus on its people and its processes, SSEN has made significant changes to ensure it is meeting its customers' needs and delivering against the measures as set by the RIIO-ED1 price control. This has ensured it is able to deliver outputs aligned to the expectations of its customers, stakeholders and the regulator while delivering a fair financial return to investors.

A fundamental responsibility of SSEN is to 'keep the lights on' for its customers. Through the RIIO-ED1 price control, SSEN is incentivised on its performance against the loss of electricity supply through the recording of Customer Interruptions ("CI") and Customers Minutes Lost ("CML"), which include both planned and unplanned supply interruptions. This is part of the Interruption Incentive Scheme ("IIS").

After a good performance in 2016/17, SSEN experienced a fall in IIS incentive income from £13.9 million to £6.8 million in 2017/18. This was largely due to an unusual and sustained pattern of weather in the south of England leading to pockets of unplanned supply interruptions that did not qualify under OFGEM's 'exceptional event' definition.

In SSEN's central southern England network region, CI increased to 55 (48 in 2016/17) and the average CML increased to 48 (43 in 2016/17). In SSEN's north of Scotland network region, CI decreased to 57 (68 in 2016/17) and the average CML decreased to 55 (60 in 2016/17).

SSEN's commitment to providing a safe and secure electricity supply and to minimise unplanned interruptions requires a continuous programme of investment in the network. This includes the refurbishment and reinforcements of assets; upgrades to automation which reduces the number of customers affected and the duration of faults; minimise the impact of tree related damage; as well as investments in new innovative technologies.

Since the beginning of the RIIO-ED1 price control, SSEN has implemented significant changes to its customer services operations to improve the journey for its customers and respond to the incentive based framework.

SSEN's continued focus on its customers and doing the right thing has resulted in a total incentive reward of £2.7 million for 2017/18 against the Customer Satisfaction (or Broad) Measure Incentive which is slightly lower than in the previous year (£2.8 million).

To benchmark its performance against leading customer service providers, SSEN has become a member of the Institute of Customer Service and continues to look across a range of sectors to help it achieve its ambition to be recognised for providing leading customer service.

SSEN remains fully committed to supporting its customers who require extra help and ensuring suitable support is provided to its Priority Services Register ("PSR") Customers during network outages. Supporting vulnerable customers is also a key component of the Stakeholder Engagement and Consumer Vulnerability ("SECV") Incentive and contributes to 25 per cent. of the total award available. In respect of performance in 2016/17 financial year, SSEN was awarded £0.8 million under the SECV incentive against a total available reward of £3.1 million. The outcome of the SECV incentive for 2017/18 will not be known until the second half of 2018 but it is currently estimated to be £1.15 million.

A key challenge continues to be identifying customers who are eligible for support through its PSR. SSEN continues to look at innovative ways of reaching these customers, from its vulnerability mapping tool, to working with external partners and trusted intermediaries building on existing partnerships and forging new relationships with a broad and diverse range of organisations, such as the London Sustainability Exchange and NHS Highland, helping broaden the reach of SSEN's support.

Over recent years, SSEN has made significant changes and improvements to its connections process, informed by the needs and expectations of customers, which was reflected by an award of £1.8 million under the Average Time to Connect Incentive for 2017/18 against a total reward available of £2.4 million, up from £1.7 million the previous year.

This commitment to place its connections customers at the heart of its processes was also reflected by SSEN avoiding a penalty for the second consecutive year under the penalty-only Incentive in Connections Engagement ("ICE") for 2016/17. The outcome of ICE for 2017/18 will not be known until the second half of 2018.

Performance in relation to interruptions, customer service and connections, plus stakeholder engagement, are the subject of an incentives framework which rewards companies for good performance but also penalises them where performance does not meet required standards. In summary, this provides an opportunity for network operators to share in the rewards from delivering improvements for its customers. Improved performance against these metrics remains a key objective for SSEN.

Looking collectively at RIIO-ED1 incentive performance during 2017/18, SSEN earned £12.5 million from a maximum available award of £43.1 million. It also avoided penalty-only awards totalling £9.7 million. Whilst this represents progress in incentive performance since the start of RIIO-ED1, significant headroom remains across each area.

SSEN is targeting operational improvements across its business to drive performance, including the increased use of automation, the monitoring of multiple interruptions and 'at risk' circuits, and a consistent approach for design and quotation in connections. A new Customer Relationship Management system will be introduced in 2019, which will provide a platform for effective management of customer-related issues.

SSEN is confident these incremental improvements in reliability, customer service and connections, plus stakeholder engagement, will move it closer to maximising its incentive income as it progresses through the RIIO-ED1 price control.

SSEN continues to undertake a major capital investment delivery programme across both its distribution licenced networks which will deliver significant improvements for its customers and provide the infrastructure required to support economic development, as well as contributing to sustained and fair returns and increased RAV.

In 2017/18 SSEN invested a total of £326.1 million in its distribution networks, bringing the total invested in the first three years of the ED1 price control to £869.1 million – which is part of a forecast investment of £2.4 billion throughout the RIIO-ED1 period.

Good progress is being made to deliver SSEN's Bicester to East Claydon project which, at £24 million, is the largest single project being delivered by SSEN under the RIIO-ED1 price control and is one of the largest electricity distribution investments ever undertaken in south east England.

In the north of Scotland, SSEN is taking forward a major rolling programme of investment to replace the existing subsea cables which have successfully and safely served the Scottish islands for many decades. With a forecast investment of £100 million across ED1, subject to regulatory approval, the responsible and evidenced based approach SSEN has adopted to inform its subsea cable replacement programme will deliver RAV growth, whilst minimising the cost impact to its customers.

SSEN's disciplined and efficient approach, underpinning the delivery of its capital and strategic investment programme, will ensure it continues to deliver value for energy consumers and provide a fair return on investment for shareholders.

Innovation continues to play a key role in the development and improvement of the service provided to SSEN's customers and, at the same time, help inform the wider industry as it prepares for fundamental changes to the electricity system.

SSEN has a clear track record in progressing innovation through OFGEM funded structures, securing over £95 million in regulatory funding for innovation projects since 2010. This record was strengthened in July 2017, when SSEN was awarded an additional £2 million as a discretionary award from OFGEM for its Tier 1 innovation projects, the highest amount awarded to any Distribution Network Operator ("DNO") group.

SSEN has also been successful in progressing new initiatives outside of funding mechanisms, where benefits to the efficiency of operations or delivery for customers are proven. This includes investment in aerial scanning of its overhead network using LiDAR technology, which is now 90 per cent. complete. This initiative, which will give measurements accurate to 2cm, will bring significant benefits in ensuring safety and asset compliance, efficient vegetation management and, ultimately, improved fault performance. SSEN is the first network operator to bring this technology into business-as-usual operation.

In 2017/18, many of SSEN's innovation projects, such as a trial of Constraint Managed Zones, were designed to inform the wider industry on the move to a new, smart, flexible system and the transition of DNOs to a new Distribution System Operator role.

One of the biggest changes in the energy system is the flexibility revolution. Distributed generation, electric vehicles, demand-side response and energy storage are transforming the energy system and giving customers access to new products and services from a new range of providers.

DNOs will play a pivotal role in this revolution which will increase the investment needed across networks, creating new opportunities in managing this demand.

In November 2017, SSEN published its DSO strategy, Supporting a Smarter Electricity System, setting out the five key principles it believes should underpin the transition to a smart, flexible electricity system. These are: (i) working for all customers; (ii) ensuring cost efficiency; (iii) market neutrality; (iv) removing barriers to local solutions; and (v) adopting an approach of learning by doing.

SSEN continues to play a leading role in the influential Open Networks project, led by the Energy Networks Association, and will continue to engage with industry, policy-makers and the regulator in support of a phased

approach to the DSO transition whereby impacts can be carefully reviewed and the best interests of customers maintained.

A key aspect of the transition to a smart, flexible electricity system is the electrification and decarbonisation of transport. SSEN continues to respond to the growth in electric vehicles (“EV”) which is forecast to accelerate in the coming years in response to ambitious targets set by both the UK and Scottish Governments to phase out petrol and diesel vehicles by 2040 and 2032 respectively.

To prepare for the likely growth in uptake of EV and Low Emissions Vehicles, SSEN continues to support the industry in identifying the challenges and solution to ensure the transition is as smooth as possible. This includes a consultation SSEN published in March 2018 on “Managed Electric Vehicle Charging”, which seeks views on proposed solutions to help avoid potential overloads on local electricity networks caused by sharp increases in the use of electric vehicles.

The consultation forms part of SSEN’s Smart EV project, undertaken alongside technology partners EA Technology and supported by Great Britain distribution network operators. The project, funded by OFGEM’s Network Innovation Allowance, sets out to review and research charging solutions that will allow the transition to electric vehicles to take place with minimum disruption to customers and avoiding unnecessary network reinforcement.

Gas Distribution

Covering Scotland and the south of England, SGN is the gas network company distributing natural and green gas to 5.9 million homes and businesses through a network of 74,000km of mains and services. Good progress is also being made building a third distribution network in the west of Northern Ireland comprising some 700km of new gas pipelines which will allow up to 40,000 customers to connect for the first time to mains natural gas. SGN now has 36 biomethane plants connected to its UK networks, supplying enough green gas for the needs of almost 180,000 homes. This is good progress to achieving its 2021 ambition of supplying 250,000 customers with green gas.

As the current RIIO- GD1 eight-year price control moves closer to its 2021 conclusion, SGN remains focused on the delivery of all its outputs under this RIIO framework as well as ensuring it maximises its regulatory incentives. In November 2017, SGN committed to OFGEM a voluntary contribution of £145 million in price control allowance terms to customers, which was welcomed by OFGEM.

The primary focus of the SGN management team is to ensure all its operations are run safely for the public at large, its customers, contractors and employees. SGN continues to invest in both its network and people, while ensuring: it minimises its impact on the environment; engages with and communicates with its customers and stakeholders; and delivers new initiatives to help reduce fuel poverty and increase awareness of Carbon Monoxide dangers.

SGN had a good year in all its operations activities, including emergency repair and gas mains replacement. At the year-end, it exceeded its 97 per cent. emergency response target and dealt with a number of multiple ‘no gas’ incidents, many caused by broken water mains and third-party damage. SGN also achieved its gas mains replacement year-end targets in both networks with 269km achieved in Scotland and 731km in its southern network area.

Initiated in 2015, SGN’s three-year customer experience transformation programme is continuing to deliver much improved customer experience, by leveraging digital technology and adding value by reducing cost to serve. Through the commitment and hard work of its operations and field teams, for the second year running SGN is the UK number one gas network for customer service. It is also the UK’s number one gas network company for complaint handling, reducing customer complaints on average by 18 per cent. each year and overall by 66 per cent. since 2012/13.

SSE holds a 33 per cent. equity stake in SGN, and this contributed to 9 per cent. of adjusted operating profit of the SSE Group for the year ended 31 March 2018. The adjusted operating profit of SGN attributable to SSE’s share for

the years ended 31 March 2018 and 31 March 2017 was £165 million and £239 million respectively (note that SSE sold a 16.7 per cent. share in SGN in October 2016). The RAV of SGN attributable to SSE's share was £1,828 million and £1,748 million as at 31 March 2018 and 31 March 2017 respectively.

Retail

SSE is one of the largest energy suppliers operating in the competitive energy markets in the UK and Ireland. As at 31 March 2018, it supplied electricity and gas to 7.58 million household and business accounts, compared to 8.0 million as at 31 March 2017. It also provides other related products and services including telephone, broadband and boiler care to 0.45 million household as at 31 March 2018, compared to 0.47 million households as at 31 March 2017.

The Retail business area includes those businesses which are subject to the planned SSE Energy Services transaction. During the 12 months to 31 March 2018, total adjusted operating profit in Retail including Enterprise was £402.8 million compared with £422.3 million in the previous year. The principal movements were as follows:

- SSE Energy Services – Energy supply (households in the UK): adjusted operating profit was flat at £260.4 million in 2017/18 compared to £260.8 million in 2016/17. While electricity tariffs increased to recognise rising non-energy costs, overall profits were also impacted by customer account losses and the introduction of price caps for certain customer groups, offset by ongoing efficiency savings. The business also benefited, in the last quarter of the financial year, from higher customer energy consumption due to unseasonably cold weather.
- SSE Energy Services - Energy-related services (households in UK): adjusted operating profit increased to £18.3 million in 2017/18, from £12.7 million in 2016/17, reflecting increased profitability of SSE's home services and telco businesses, which was partially offset by a reduction in revenues from the heritage metering business.
- Energy Supply (Business Energy): adjusted operating profit decreased to £64.2m in 2017/18, from £89.4 million in 2016/17. While underlying profits remained similar, 2016/17 included a larger prior year reconciliation catch up.
- Energy Supply (SSE Airtricity): adjusted operating profit decreased to £33 million in 2017/18, from £42.7 million in the previous year, due to a combination of increased competition and increased energy costs.
- Enterprise: adjusted operating profit increased to £26.9 million in 2017/18, from £16.7 million in the previous year, due to a combination of higher revenues and focused cost cutting.
- Reported Retail operating profit: increased to £328 million 2017/18 from £309.6 million in the previous year due to the reasons outlined above, in addition to the impact of exceptional items and certain re-measurements. In the year 2017/18, the Group has recorded exceptional impairments totalling £63 million as a result of its decision to demerge its UK domestic gas and electricity supply business. In addition, there was an exceptional impairment of £11.8 million in the Heat Networks business due to a re-evaluation of some of the contracts within the business. In the prior year impairments totalled £112.7 million.

Retail's adjusted operating profit attributable to SSE will be subject, amongst other things, to the progress and timing of the planned transaction relating to SSE Energy Services and the timing and impact of the Domestic Gas and Electricity (Tariff Cap) Bill.

In its full-year results statement for 2016/17, SSE stated that the rapidly evolving and increasingly competitive market for the supply of energy and related services presents a number of challenges for traditional energy supply business models and they must evolve and adapt in order to be sustainable in the medium to longer term. On 8 November 2017, SSE set out that following discussions with Innogy, SSE had identified an opportunity, subject to the necessary regulatory and shareholder approvals, to combine its household energy and services business in the UK with that of Innogy's subsidiary, npower, to create a new, independent company to be listed on the London

Stock Exchange. Both SSE and Innogy believe the planned SSE Energy Services transaction has potential to drive real benefits for customers, employees, shareholders and the wider energy market by combining the expertise and resources of two established providers with the focus and agility of an independent supplier in what would be a unique model in the market. With its own dedicated board and expert management team, the new company would be well positioned to respond to changing customer and stakeholder expectations by becoming more efficient, agile and innovative.

npower is one of Great Britain's largest suppliers of electricity and gas, and is currently part of the Innogy Group. As of 31 March 2018, npower served around 4.8 million accounts across the United Kingdom and Ireland.

The planned SSE Energy Services transaction is subject to approval by the CMA and a merger notice was formally submitted to the CMA on 28 February 2018. Following an initial Phase One investigation, on 8 May 2018, the CMA referred the planned transaction for a so-called 'Phase 2' investigation, by a group of independent panel members. The deadline for the final report from that investigation is 22 October 2018. The transaction has now been approved by the shareholders of SSE in a general meeting held on 19 July 2018. As stated in November 2017, significant synergies are also anticipated. Taking these timetables into account, the planned SSE Energy Services transaction remains on track for completion in the last quarter of the 2018 calendar year or first quarter of 2019. SSE Energy Services accounted for £278.7 million of the SSE Group's adjusted operating profit for the year ended 31 March 2018 (compared to £273.5 million for the year ended 31 March 2017) and £4,154.6 million of the SSE Group's revenue for the year ended 31 March 2018 (compared to £4,015.3 million for the year ended 31 March 2017).

Following completion of the SSE Energy Services transaction, SSE Energy Services will no longer form part of the SSE Group. It should be noted that consideration for the transaction will be a dividend in specie to SSE shareholders (who will receive shares in the new independent company resulting from the transaction) rather than payment being made into the SSE Group. Such dividend in specie will be equal to the aggregate book value of SSE's interest in SSE Energy Services.

Until such time as CMA approval is given and the transaction is completed, SSE Energy Services and npower remain entirely separate and compete with one another as normal. However, integration planning work is under way to make necessary plans and preparations for the new business, to the extent allowed within the letter and spirit of competition law. A number of key milestones have already been reached, including the appointment of Katie Bickerstaffe as Chief Executive Designate of the future combined business. Katie will take up her new appointment later this year and will lead the work to prepare for the formation and listing of the new company. Her role during that period will not include any involvement in the leadership or management of either existing organisation.

Energy supply businesses in the UK face a number of headwinds due to the rapidly evolving and increasingly competitive nature of the market. These headwinds can be characterised as four "core" challenges to which SSE Energy Services must respond in order to stay relevant and sustainable:

- **Competition:** the energy supply market continues to intensify with around 70 suppliers now competing to win and retain customers, the arrival of new entrants from start-ups to major multi-nationals such as Shell, Vattenfall and Engie, and record levels of customer switching, according to Energy UK data. As a result, despite ongoing efforts to attract and retain customers, in 2017/18 SSE UK domestic electricity and gas customer accounts numbers fell to 6.35 million compared with 6.76 million at 31 March 2017.
- **Operating costs:** in this environment, ensuring controllable costs are as low as possible is key to staying competitive and offering customers value while delivering for shareholders. However, the cost of supplying energy is increasing and there is upward pressure from a number of areas, principally the many and varied impacts of the smart meter roll-out, falling underlying energy consumption, regulatory intervention and lower customer numbers.

- Regulatory intervention: there will always be intense political interest in the energy market and this has major implications for the regulatory environment in which SSE Energy Services operates. The Domestic Gas and Electricity (Tariff Cap) Bill 2017-19 received royal assent on 19 July 2018 and it is expected OFGEM will publish its next consultation on the provisions to implement the act in early September. Although SSE has warned against the unintended consequences of such a significant intervention in a rapidly evolving and highly competitive market, it is engaging constructively with OFGEM to help ensure the methodology used to set and update the cap is robust, fair and takes account of the real costs and risks of supplying energy to a large and diverse range of customers. At the same time, transformational regulatory projects are being undertaken in the form of the smart meter roll-out and the faster switching programme. As well as introducing an unprecedented amount of change, implementing these projects requires a significant commitment of resources.
- Evolving customer expectations: the energy market does not exist in a vacuum and customers' expectations continue to increase, informed by their experiences of other companies and markets. Demand is growing for more tailored, personalised services underpinned by data (used responsibly), seamless customer experiences across channels and devices, and an enhanced ability to "self-serve" via user-friendly, intuitive digital platforms. In the longer term, the development of disruptive technologies from smart meters to domestic micro-generation, storage and electric vehicles could change fundamentally the nature of the services customers require.

In the longer term, SSE believes the planned SSE Energy Services transaction is the right strategic response to these issues, creating an independent business with singularity of focus and the ability to be more agile and responsive to changing market and customer dynamics.

However, this is subject to regulatory and shareholder approvals and in the interim SSE Energy Services remains focused on its own internal strategic priorities for addressing these challenges across both energy supply and energy related services:

- Attracting and retaining more customers: in a fiercely competitive market, winning and keeping customers is challenging and a key area of focus. In 2017/18, SSE Energy Services continued to leverage its investment in entertainment sponsorship to offer additional rewards to customers in order to engage and retain them and more than 2.5 million people visited SSE-sponsored venues during this 12-month period alone. In exploring ways to engage customers in new ways, SSE is developing partnerships with leading retail brands such as WHSmith, nectar and Argos. It will also soon launch a "renew 1-year fix" tariff through which it will automatically sign up customers whose fixed-term deal is ending to a new fixed-term tariff with no exit fees – giving them price protection and, critically, introducing a new prompt to engage with their tariff choices on renewal each year. These efforts are also supported by innovative new propositions such as offering low-cost unlimited broadband and the popular "Boiler Rescue" offer of a free emergency boiler repair to any customer who then signs up to a new boiler care subscription. This makes SSE Energy Services the only energy provider offering to fix their customers' boiler for free, even if they don't have cover at the point of breakdown. This has contributed to strong performance in SSE's Energy-Related Services business and, having successfully completed its transition to a regulated insurance model in Home Services, SSE sees further opportunities for growth in this area, as well as improving energy customer retention through value-adding, bundled propositions.
- Reducing our cost to serve: given the competitive environment, upward pressure on costs and the need to keep energy as affordable as possible for customers, efforts to drive efficiency improvements across SSE Energy Services are vitally important. Through further embedding "lean" methodology and continuous improvement hubs, with more than 300 staff now trained as part of the "lean academy", this programme continued to deliver cost efficiencies in 2017/18. Also in 2017/18, SSE Energy Services made further progress in its efforts to digitalise its front and back-office systems, rolling out further process automation to

reduce administrative costs and helping more customers to self-serve online, as demonstrated by a 200 per cent. uplift in phone and broadband sign-ups online following improvements to the customer journey.

- Delivering smart in a safe, cost-effective and customer-centric way: the smart meter roll-out represents an opportunity to transform the relationship between customers, their energy supplier and the energy they consume. SSE remains committed to delivering on its obligations under the roll-out in a way that is safe, minimises where possible costs to customers, and maximises the net benefits to customers by engaging them with their energy use. To that end, as of 31 March 2018, SSE had more than 850,000 smart meters on supply in customers' homes. Despite ongoing challenges associated with the availability of key enabling technology, generating demand from customers and timing the ramp-up of its workforce, SSE was pleased to deliver against its binding targets agreed with OFGEM for 2017 and is now preparing to make the transition to the enduring SMETS2 solution, once available. Given the degree of complexity and up-front investment costs involved, SSE has consistently argued that the roll-out and associated targets should be kept under review so that pragmatic, informed decisions can be made that lead to the highest possible net benefits to customers from the programme as a whole.
- Building on SSE's customer-centric culture: throughout a year of change, SSE has continued to put customers at the heart of everything it does. Senior managers met regularly with customers in SSE's Customer Forums and the company has engaged with over 60,000 consumers through a programme of research which includes its 3,000-strong online Customer Connect community. SSE's focus on delivering excellent customer service has seen it sign up to the Energy Switch Guarantee and the Energy UK Billing Code and these commitments have helped maintain a strong performance in the Citizens Advice Energy Supplier rating, including SSE once again being identified as having the lowest levels of complaints to third parties amongst the major energy suppliers in the UK. SSE remains very mindful of its responsibilities in respect of supporting customers in vulnerable circumstances; to that end, it committed to attaining the British Standard for Inclusive Service Provision, which is widely regarded as the 'gold standard' in recognising and adapting service to customer vulnerability in all its forms. SSE achieved the Standard in March 2018, for the key areas of Complaints, Credit Management and Sales.

Business Energy supplies energy to 0.49 million business and public sector customers throughout the UK, to a market which consumes a total of around 180TWh of electricity and 8 billion therms of gas annually.

Business Energy continued to perform robustly across all customer segments. This strong position is built on solid core competencies in meeting business customers' energy needs. Competencies such as excellent customer service and sales channels exist within Business Energy, whilst others are leveraged across the wider SSE Group, for example, the ability to develop products that navigate the increasing complexity of the UK energy market.

In 2018/19 the focus remains on growing Business Energy's core market segments, whilst broadening into related services such as energy optimisation and demand side response where there is an opportunity to use data and technology to improve outcomes for customers.

In Ireland's all-island energy market, SSE's retail arm SSE Airtricity is the second-largest provider of energy and related services across the Republic of Ireland ("**ROI**") and Northern Ireland ("**NI**"), and is the only retail energy brand operating in each of the competitive gas and electricity markets across the island.

At 31 March 2018, SSE Airtricity supplied electricity and natural gas to 0.74 million household and business customer accounts in ROI and NI, reflecting a fall in household customer numbers due to increased competitive pressures, particularly in electricity markets.

In NI, SSE Airtricity increased household electricity prices by 7.5 per cent. from 1 October 2017, while in ROI electricity prices increased by 5.6 per cent. from 1 November 2017. These were the first such increases in both markets since 2013 and were as a result of increases in the cost of supply including wholesale and regulated networks costs. On 1 April 2018, SSE Airtricity increased its regulated natural gas prices in NI by 7.8 per cent. for home and small business customers. This increase was examined and approved by the NI Utility Regulator.

SSE Airtricity Business Energy (“**SSE Airtricity**”) increased customer load across the island by 12 per cent. in the 12 months to 31 March 2018, while its Eco team has facilitated energy efficiency initiatives that are saving businesses almost 110GWh of primary energy annually. In April 2018, SSE Airtricity announced a 40 per cent. acquisition of Activ8 Solar Energies, a leading supplier of Rooftop Solar systems to home and business customers, with an option to acquire a further 10 per cent. after two years. The acquisition marks yet another step forward in the development of SSE Airtricity’s commercial and domestic energy services solutions.

SSE’s Energy Markets trading team in Ireland is at the final stages of preparation for the introduction of the Integrated Single Electricity Market (“**I-SEM**”) this year, under which new balancing obligations will be established. In May 2018, a 78MW stake in Clyde wind farm was sold.

Adjusted operating profit for SSE’s wholesale segment will be impacted by the cessation of “in the money” power purchase agreements and a lower forward hedge price for renewables than in 2017/18.

Enterprise

Adjusted operating profit increased to £26.9 million in 2017/18, compared to £16.7 million the previous year, due to a combination of higher revenues and focussed cost cutting.

Looking ahead, Enterprise will continue to engage with its significant restructuring exercise – which is designed to drive out unnecessary cost and thereby ensure the business is best placed to seek out and win new growth opportunities. Safety remains a key priority for Enterprise, with an objective to reduce reported accidents - in line with the targets of SSE Group.

SSE Enterprise is a group of businesses that provides energy and telecoms services to industrial, commercial and public sector customers across the UK and Ireland. To fulfil that need the business has developed the capacity to build, own, operate and maintain assets. Its four business areas are: Contracting, Utilities, Telecoms and Rail.

There is a pipeline of significant opportunities which the four Enterprise business streams are well placed to tap into. These include bigger and better opportunities in mechanical and electrical, energy storage, distributed energy, electric vehicle infrastructure, fibre networks, 5G infrastructure, and rail power and communications infrastructure.

Moving forward, the role of Enterprise, within SSE Group, will be to consolidate and grow its existing market share as well as explore new opportunities in the areas that are complementary to the Group’s core energy portfolio. Enterprise is one of several adjacent businesses which can benefit directly and indirectly from the strength and depth of SSE Group’s experience in core energy markets.

To ensure Enterprise is a growth driver for the SSE Group it aims to:

- Focus on growth in its existing core markets;
- Develop larger projects which give longer term visibility of earnings and build on the strengths of the company’s diverse business areas and multi utility capabilities;
- Develop further the capacity of the business to build, own, operate and maintain assets; and
- Focus on providing innovative solutions to meet the changing needs of customers.

Developing strategic partnerships will continue to help Enterprise deliver value and support SSE Group to meet the changing needs of the energy and telecoms sector. For example, helping to deliver electric vehicle infrastructure in the UK represents an exciting opportunity for Enterprise to build on the success of its London project for electric buses at Waterloo bus depot. Likewise, the Utilities business will be aiming to play a bigger role in distributed energy and energy as a service.

In Rail, work awarded through the national building and civils framework will transform the size of the business. In Contracting, there are opportunities arising from supporting the infrastructure growth agendas and further investments in High Voltage, and large scale projects across the UK. And finally, the Telecoms business has

secured an important contract agreement with Three UK, which will see the two companies working together to support the mobile network's growth and expansion goals.

With national infrastructure investment set to increase, there are major opportunities within Enterprise's existing core markets. These include:

- The move towards distributed energy and energy as a service;
- The significant spend on rail infrastructure. For example, the combined value of the spend on projects such as HS2 and Network Rail's Control Period 6, is expected to be in excess of £100 billion;
- The emergence of the clean growth agenda and the increasing requirement for EV infrastructure for public and private vehicles;
- The migration towards 5G and the fact that broadband is increasingly seen as a fifth utility; and
- The development of the smart city agenda, which involves elements of multi utility, telecoms and contracting.

Performance summary of four business streams

- **Contracting:** On the back of a substantial and successful efficiency programme, SSE Enterprise Contracting has made further progress in putting in place the building blocks for future growth. It retains a clear focus on mechanical and electrical as well as power activity as the foundations of its success. SSE Enterprise Contracting is also pursuing larger scale opportunities using a disciplined approach to pick the right segments and right customers to engage with.
- **Utilities:** SSE Enterprise Utilities aims to be a leader both in its core utility infrastructure market and the fast-growing market for distributed energy networks. It is looking to increase the scale of the energy assets and networks it currently builds, owns, operates and maintains. The business is set to target the rapidly growing electric vehicle market, and is involved in the installation and power supply of EV infrastructure. In response to demand, it is seeking to deliver solutions to integrate energy generation, storage and utility infrastructure. On the back of strong growth by Slough Heat and Power in its private electricity network, the business is aiming to recreate this capability across the UK market.
- **Telecoms:** SSE Enterprise Telecoms continues to accelerate new network development to help bring major UK data centres "on net" and expand its commercial footprint throughout the UK and especially on key strategic routes by unbundling more BT Exchanges. It is winning long term core network agreements with new clients in the banking, transportation and service provider markets. It is also supporting both broadband rollout and Mobile Network Operators with their 5G network preparation. In Ireland, SSE is a member of a consortium that has been participating in a competitive tender dialogue process with the Irish government to deliver Ireland's National Broadband Plan.
- **Rail:** SSE Enterprise Rail continues to grow thanks to its reputation for delivering an outstanding quality of work – as evidenced by recent PRISM scores from Network Rail. SSE Enterprise Rail has a unique service offering because it can be a local service provider; whilst retaining the capability to bid for work on major infrastructure projects such as HS2, drawing on the experience of SSE Group. The award of a significant quantum of work via the national building and civils framework shows that the business can become a 'supplier of choice' for Network Rail through its scale and quality capabilities.

Wholesale

SSE's Wholesale segment consists of Electricity Generation, Gas Storage, Gas Production and Energy Portfolio Management. The businesses within Wholesale are well positioned to support the trends towards decarbonisation, electrification and infrastructure.

SSE owns and operates a highly complementary portfolio of renewable and thermal generation assets. This is in line with its strategic interest to develop, own and operate renewable generation and supporting flexible generation.

Low carbon generation from SSE's onshore wind farm, offshore wind farm and hydro assets creates sustainable returns, with the majority rewarded through renewable support schemes. Renewable generation is influenced by weather conditions, but when renewable output is low, SSE's thermal assets are able to respond quickly, providing back up to renewables and delivering value from thermal flexibility.

The diversity of SSE's generation portfolio is fundamental to achieving the overall earnings in Electricity Generation. Moreover, maximising portfolio returns requires a deep operational understanding of all generation assets combined with extensive commercial experience to secure value in an increasingly volatile market.

The total gas- and oil- fired output for 2017/18 was 21.9 TWh, compared with 17.4 TWh for 2016/17. The total coal-fired output also increased in the last year, with an output of 1.46 TWh for 2017/18 compared with 0.90 TWh for 2016/17, however coal-fired output is likely to fall in the next few years as a result of the mandated closure of coal-fired generation.

SSE currently owns or has an ownership interest in 11,160MW of capacity, which comprised at 31 March 2018: (i) 4,013MW of gas-fired generation capacity (UK); (ii) 1,292MW of gas and oil fired generation capacity (Ireland); (iii) 2,029MW of coal fired generation capacity (UK) (including waste to energy capacity); and (iv) 3,826MW of renewable generation capacity (UK and Ireland) (including pumped storage).

Renewable Energy

Output of electricity from renewable sources, including pumped storage, increased in 2017/18, compared to the previous year (9.4TWh compared to 8.0TWh) (it was 9.0TWh in 2013/14). The primary driver for this differential was an increase in on-shore wind capacity, as new wind farms came online, along with improved wind conditions. Overall renewable energy capacity, including conventional hydro and pumped storage, increased, to 3,826MW as at 31 March 2018, from 3,309MW in the previous year. The further sale of a 78MW stake in Clyde wind farm in May 2018 means this stands at 3,748MW as at 25 May 2018.

Hydro is unique in SSE's portfolio, as it can be characterised as both renewable and flexible. Over the last financial year, SSE's hydro stations have delivered increased value from their flexibility, enabled by enhancements to SSE's commercial management of these assets. In addition to 400MW of run-of-river hydro, SSE has 750MW of flexible hydro. Alongside SSE's 300MW of pumped storage, flexible hydro operates as 'Britain's biggest battery'. Increasing volumes of wind energy coming onto the UK system will create the need for more flexibility in the form of energy storage, and SSE's hydro assets are well placed to provide this in an optimal way.

SSE's hydro capacity as at 31 March 2018 was 1.5GW (compared with 1.5GW as at both 31 March 2017 and 31 March 2016), with generation at 3.4TWh as at 31 March 2018 (compared with 3.3TWh and 4.3TWh as at 31 March 2017 and 31 March 2016 respectively). Hydro accounted for £214 million of adjusted EBITDA⁹ the year ended 31 March 2018 (compared with £231 million and £266 million for the years ended 31 March 2017 and 2016 respectively). In respect of hydro, free cashflow after operational capital expenditure¹⁰ was £184 million as at 31 March 2018 (compared to £200 million and £245 million as at 31 March 2017 and 31 March 2016).

Over the past decade SSE has developed strengths in the efficient development, construction and operation of onshore wind. To date, SSE's focus has been on completing Renewable Obligation ("RO") projects in the UK and REFIT projects in Ireland. Seven new onshore wind energy projects have been delivered in the last 16 months, and

⁹ "Adjusted EBITDA" is defined as adjusted operating profit, adjusted further for depreciation/amortisation/impairment before exceptional charges, associate share of depreciation/amortisation and any release of deferred income. Renewables Adjusted EBITDA was £692.2 million, £580.3 million for the years ended 31 March 2018 and 2017 respectively, after adjustment to adjusted operating profit attributable to Renewables of £474.9 million and £391.6 million respectively.

¹⁰ Free cashflow after operating capital expenditure is defined as adjusted EBITDA less operational capital expenditure and demonstrates cash available to fund the business.

all have come in under budget. These include Bhlaraidh in Scotland (110 MW) and Leanamore (18MW) in Ireland, which were both delivered in the second half of 2017/18.

Following the sale of 78MW of capacity at Clyde, SSE's onshore wind farm capacity now stands at 1,917MW. Stronelairg (228MW), SSE's final wind farm to be constructed under the RO, is on track for completion in 2018. The project reached a significant milestone on 24 March 2018 when it achieved first export, rendering it eligible for RO accreditation.

SSE's on-shore wind farm pipeline consists of around 800MW of potential new build projects and extensions, including the joint venture Viking Wind Farm (up to 457MW – SSE share 50 per cent.), located on Shetland, and Strathy South (up to 133MW). In February 2018, the UK Government received State Aid clearance from the European Commission to enable wind projects on the remote islands of Scotland to compete in the next Contracts for Difference auction alongside other less established technologies. Confirmation of the treatment of remote islands projects in the next allocation round is expected in the coming months.

At present, there is no indication of a further UK Contracts for Difference auction for onshore wind. In Ireland, SSE awaits the outcome of the Irish Government's consultation on the development and design of a new Renewable Electricity Support Scheme (RESS). In both jurisdictions, SSE continues to explore future development options for onshore wind and is well placed to take advantage of future opportunities as they emerge.

SSE's onshore windfarm capacity as at 31 March 2018 was 2.0GW (compared with 1.5GW and 1.6GW as at 31 March 2017 and 31 March 2016 respectively), with generation at 5.0TWh as at 31 March 2018 (compared with 3.6TWh and 4.4TWh as at 31 March 2017 and 31 March 2016 respectively). Onshore wind accounted for £342 million of adjusted EBITDA for the year ended 31 March 2018 (compared with £208 million and £251 million for the years ended 31 March 2017 and 2016 respectively). In respect of onshore wind, free cashflow after operational capital expenditure was £339 million as at 31 March 2018 (compared to £205 million and £248 million as at 31 March 2017 and 31 March 2016).

Part of the value of SSE's offshore wind farm assets is their geographic diversity around the UK, which provides a spread of wind capture opportunities. Existing offshore wind continues to hold possibilities of growth through more efficient operation, better targeting of operations and maintenance (O&M) investment or enhancements to revenue streams.

Offshore wind represents a huge opportunity for SSE to deliver its own decarbonisation ambitions and contribute to the achievement of the UK's and Ireland's carbon targets. For example, in the UK, to meet legally binding carbon targets, the Committee on Climate Change estimates an additional 80 to 100TWh of low carbon generation are needed by 2030. In October 2017, the UK Government announced that £557 million will be available for future Contracts for Difference auctions for less established technologies, including offshore wind. The next auction is expected to take place in Spring 2019. The UK Government also intends to work with industry to develop an offshore wind Sector Deal, which could result in at least 10GW of new capacity in the 2020s.

SSE continues to develop its expertise in offshore wind, primarily through the Beatrice Offshore Windfarm joint venture (588MW - SSE share 40 per cent.), which is making excellent progress towards its construction milestones and which will contribute to earnings from mid-2019/20. SSE has interests in three further offshore wind prospects under development:

- Dogger Bank (up to 3.6GW), a 50:50 joint venture formed with Statoil to develop three projects in the Dogger Bank zone – Creyke Beck A, Creyke Beck B and Teesside A. The projects are being progressed in readiness for potential participation in the next CfD auction.
- Seagreen (Phase One up to 1,050MW), a 50:50 partnership with Fluor Limited, which in November 2017 was cleared of the legal challenge to its consent. Work is also under way to prepare Seagreen to potentially enter the next CfD auction.

- Arklow Bank (520MW) in Ireland. SSE wholly owns this consented site and awaits the outcome of the Irish RESS to see whether offshore wind will be eligible for support.

The Crown Estate and the Crown Estate Scotland have signalled their intent to make new seabed rights available to offshore wind developers to ensure new projects can start to operate from the late 2020s. SSE is following this process closely to prepare for potential new offshore wind leasing in the form of extensions or new sites.

SSE's offshore windfarm capacity as at 31 March 2018 was 0.3GW (compared with 0.3GW and 0.3GW as at 31 March 2017 and 31 March 2016 respectively), with generation at 1.3TWh as at 31 March 2018 (compared with 1.2TWh and 1.3TWh as at 31 March 2017 and 31 March 2016 respectively). Offshore wind accounted for £137 million of adjusted EBITDA for the year ended 31 March 2018 (compared with £142 million and £131 million for the years ended 31 March 2017 and 2016 respectively). In respect of offshore wind, free cashflow after operational capital expenditure was £130 million as at 31 March 2018 (compared to £140 million and £130 million as at 31 March 2017 and 31 March 2016).

Thermal Generation

Efficient, reliable and flexible thermal back-up offers weather insurance for SSE's wind farm capacity and allows optimisation of the portfolio to a higher overall economic return. In addition to managing variability in renewable production and demand, SSE's thermal fleet provides an advantage within the wider electricity market by providing reliable capacity at scale in response to market changes, for example, unplanned nuclear outages. SSE's thermal plant earned approximately £50-100 million in the balancing mechanism in 2017/18.

SSE's CCGTs are among the most flexible on the UK electricity system and have increasingly created value from their intra-day flexibility.

In February 2018, the UK Government procured 5.8GW of de-rated capacity in the year-ahead capacity market auction for delivery in 2018/19. The auction cleared at a price of £6.00/kW (kilowatt). SSE successfully secured an agreement for its CCGT at Peterhead (1,044MW) worth £6.3 million. Below is a summary of the auction results for capacity which will be delivered in 2018/19 and results that were decided in 2017/18.

2018/19 Delivery Year	Clearing price (£/kW)	Successful SSE capacity (MW)	Total SSE income (£/year)
T-1 auction (February 2018)	6.00	1,044 of gas-fired power generating plant (Peterhead)	6.3 million
Total of 5.8GW procured			
T-4 auction (December 2014)	19.40	849MW of hydro electric and pumped storage plant	85.5 million
Total of 49.26GW procured		2,266MW of gas-fired power generating plant; 1,294MW of coal-fired power generating plant	
2021/22 Delivery Year	Clearing price (£/kW)	Successful SSE capacity (MW)	Total SSE income (£/year)
T-4 auction (February 2018)	8.40	806MW of hydro electric and pumped storage plant	35.1 million
Total of 50.6GW procured		3,371MW of gas-fired power generating plant (including all existing CCGTs)	

The capacity market revenue will be received on a pro-rated basis throughout the delivery year, which runs October through September. To secure the revenue arising from the capacity market, providers of generating capacity must produce electricity when the system requires during the relevant delivery year; failure to do so will result in penalties being levied.

Whilst recent capacity market auctions have not resulted in new-build CCGT, the mandated closure of coal-fired generation and continued uncertainty over nuclear life extensions and nuclear new build mean that new capacity will be required by the mid-2020s.

As a result, SSE, in partnership with Siemens, has decided to proceed with a unique commercial opportunity to introduce first-of-a-kind, high efficiency, gas-fired generation technology to the UK. Work will begin in Spring 2018 on an 840MW CCGT at Keadby 2. Siemens will provide its 9000H technology and will manage technical, construction risk until the plant is handed over to SSE as well as provide appropriate performance guarantees. SSE will invest around £350 million in the development and construction of the project, with a substantial proportion of its financial exposure deferred until the plant is operational.

Once completed, the station will be the most efficient CCGT on the system, delivering large-scale capacity from the early 2020s onward. It will be able to provide the flexible generation needed to support the integration of large-scale renewables into the electricity grid.

SSE continues to believe the UK capacity market is the right mechanism to ensure the electricity system remains secure at the lowest cost to consumers. Alongside wholesale market and ancillary services revenues, capacity market payments remain an important aspect of the economics of Keadby 2, and SSE intends to participate in future auctions to secure a capacity market agreement.

Additionally, SSE continues to develop a CCGT project at Ferrybridge D with the view to progressing should market conditions warrant further investment in high efficiency gas-fired generation. There is also considerable value in the optionality of the existing sites at Ferrybridge and Fiddler's Ferry.

In January 2018, the results of the first competitive capacity auction under Ireland's new Integrated Single Electricity Market ("I-SEM") were published. All units at each of SSE's four thermal plant in Ireland (Great Island CCGT (464MW), Rhode (104MW), Tawnaghmore (104MW), and Tarbert (590MW)) secured I-SEM capacity contracts at the auction clearing price of €41.8/kW.

The new I-SEM capacity contracts will be from October 2018 until September 2019. Capacity market revenue will be received throughout the delivery year. Generators that fail to provide energy when called upon will be subject to financial penalties.

Gas Production

SSE has a diverse equity share in over 15 producing fields across 17 licences in three regions of the UK Continental Shelf: the Easington Catchment Area, the Bacton Area and Greater Laggan Area.

Total output in 2017/18 was 543 million therms (9.05 mmboe) of gas and 0.74 mmboe of liquids, compared with 618 million therms of gas (10.21 mmboe) and 1.05 mmboe of liquids for 2016/17. This decline in production was primarily due to the natural decline of the fields. Average daily gas and liquids production was around 1.6mth/day (gas equivalent) in 2017/18.

Gas Production currently produces enough gas to supply all of SSE's Business Energy customers as well as SSE Airtricity household customers in Ireland. This acts as a natural hedge to other parts of the SSE Group. For example, the availability of fixed price fuel within the Wholesale portfolio enables SSE to provide sales contracts to I&C customers which offer longer term price protection.

Successes over the last financial year included the early delivery of the Edradour and Glenlivet fields across the Greater Laggan Area, as well as achieving operational efficiency at the Shetland Gas Plant (SSE share – 20 per cent.) of 95.4 per cent.

SSE does not expect to make further acquisitions; however, investments to enhance its existing assets may be undertaken. For example, further exploration and appraisal activities are planned for the West of Shetland region in financial year 2018/19.

The E&P production profile of SSE peaked in 2016/17, with 618 million therms and 58 million therms for gas and liquid production respectively. This is expected to decline gradually to approximately 111 million therms and 6 million therms for gas and liquid production respectively. This is based on a number of assumptions and factors, including estimated reserves and projected capital expenditure and as such is subject to change.

Energy Portfolio Management (“EPM”)

EPM provides a route-to-market and effective risk management for Wholesale and other businesses.

EPM is responsible for ensuring SSE has the energy supplies it requires to meet the needs of customers; procuring the fuel required by the generation plants that SSE owns or has a contractual interest in; selling the power output from this plant; where appropriate, securing value and managing volatility in volume and price through the risk-managed trading of energy-related commodities; and providing energy solutions and services to customers.

As the electricity system changes to integrate intermittent, inflexible and distributed forms of generation alongside conventional plant, EPM’s ability to realise the value of flexibility from SSE’s thermal and hydro assets is increasingly important. Building on a foundation of strong asset optionality and wind forecasting capabilities, EPM’s ability to take responsible trading decisions provides the opportunity to increase value derived from SSE’s onshore and offshore wind portfolio.

Gas Storage

The economic conditions continued to be challenging for gas storage in 2017/18. Following the closure of Rough gas storage facility, SSE now holds around 40 per cent. of the UK’s conventional underground gas storage capacity, and the overall UK storage duration curve has shrunk to around 16 days. This loss of energy storage will be further exacerbated as coal-fired generation shuts over the next few years, taking with it the storage inherent in coal stocks.

Although the UK has access to diverse gas supply sources, such as interconnection and LNG, gas storage will play an important role in safeguarding the UK’s gas and electricity security of supply. If the market or regulatory signals are present, SSE’s gas storage assets are well-placed to provide this service to energy users.

Borrowing and Facilities

SSE’s objective is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. SSE’s total debt and hybrid capital was £9.6 billion as at 31 July 2018. Its average debt maturity as at 31 July 2018 was 7.5 years, compared with 7.9 years at 31 March 2018 (8.8 years as at 31 March 2017). Average cost of debt as at 31 March 2018 was 3.84 per cent. (4.10 per cent. as at 31 March 2017). As at 31 July 2018, fixed rate debt was 90 per cent.

SSE’s debt structure remains strong, adjusted net debt and hybrid capital¹¹ was £9.2 billion as at 31 July 2018 in the form of issued bonds, European Investment Bank debt and other loans. The balance of SSE’s adjusted net debt is financed with short-term bank debt. SSE’s adjusted net debt and hybrid capital includes cash and cash equivalents totalling £268.3 million. The facilities, external debt and internal loan stocks for the SSE Group as at 31 July 2018 (with sterling equivalents (where applicable) as at that date) were as follows:

SSE	<ul style="list-style-type: none">• U.S.\$680 million (£433.8 million) U.S. private placement due
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¹¹ For more information on the relevance of adjusted net debt and hybrid capital (which is not an IFRS measure of performance) and the way in which it is calculated, see the financial statements which are incorporated by reference in this Prospectus.

	between 2019 and 2024
	<ul style="list-style-type: none"> • £501.1 million U.S. private placement due between 2023 and 2027 • £500 million 5.0 per cent. bonds due 2018 • ¥15 billion (£126.6 million) 3.52 per cent. fixed rate notes due 2018 • £300 million 4.25 per cent. bonds due 2021 • £300 million 5.875 per cent. bonds due 2022 • £500 million 8.375 per cent. bonds due 2028 • £350 million 6.25 per cent. bonds due 2038 • €600 million 2.00 per cent. bonds due 2020 (£548.1 million of principal outstanding) • €500 million 2.375 per cent. bonds due 2022 (£415 million of principal outstanding) • £1.3 billion revolving credit facility maturing 2022 (undrawn) • £1.5 billion Euro Commercial Paper programme (undrawn) • £200 million revolving credit facility maturing 2021 (undrawn) • £100 million European Investment Bank loan due 2028 • €700 million 1.75 per cent. bonds due 2023 (£514.6 million of principal outstanding) • €600 million 0.875 per cent. Bonds due 2025 (£535.0 million of principal outstanding) • £100 million European Investment Bank loan due 2020 • £300 million European Investment Bank loan due 2021 • U.S.\$150 million (£107.7 million) bank loan due 2020
SSE Generation Limited	<ul style="list-style-type: none"> • £1,500 million intercompany loan stock due to SSE
SHEPD	<ul style="list-style-type: none"> • £139.6 million 1.429 per cent. index linked bonds due 2056 • £300 million intercompany loan stock due to SSE
SEPD	<ul style="list-style-type: none"> • £350 million 5.5 per cent. bonds due 2032 • £325 million 4.625 per cent. bonds due 2037 • £127.7 million 4.454 per cent. index linked loan maturing 2044 • £400 million intercompany loan stock due to SSE
SHE Transmission plc	<ul style="list-style-type: none"> • £1,063.1 million intercompany loan stock due to SSE • £150 million European Investment Bank loan due 2021 • £150 million European Investment Bank loan due 2022 • £50 million European Investment Bank loan due 2023 • £300 million European Investment Bank Loan due 2026 • £100 million European Investment Bank Loan due 2028 •
SSE Home Services plc	<ul style="list-style-type: none"> • £12 million intercompany loan due to SSE

SSE Hornsea Limited	• £240 million intercompany loan stock due to SSE
SSE E&P UK Limited	• £50 million intercompany loan stock due to SSE
Keadby Generation Limited	• £120 million intercompany loan stock due to SSE
SSE Generation Ireland Limited	• €74.8 million (£66.7 million) intercompany loan stock due to SSE

Hybrid Capital

Hybrid Equity

On 10 March 2015, SSE issued £750 million and €600 million hybrid capital bonds (the “**Sterling 2015 Hybrid Bonds**” and the “**Euro 2015 Hybrid Bonds**” respectively) and on 18 September 2012 issued €750 million and \$700 million bonds (hybrid capital) (“**2012 Hybrid Bonds**”). The hybrid capital bonds have no fixed redemption date but SSE may, at its sole discretion, redeem all (but not part) of these bonds at their principal amount on: (i) 10 September 2020 or every five years thereafter for the Sterling 2015 Hybrid Bonds; and (ii) 1 April 2021 or every five years thereafter for the Euro 2015 Hybrid Bonds. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to compliance with certain conditions, including no dividend having been declared on SSE’s ordinary shares.

Hybrid Debt

On 16 March 2017, SSE issued \$900 million and £300 million hybrid capital bonds (“2017 Hybrid Bonds”). The 2017 Hybrid Bonds mature on 16 September 2077 but SSE may, at its sole discretion, redeem all (but not part) of these bonds at their principal amount on 22 September 2022 or any interest payment date thereafter. SSE has the option to defer coupon payments on the bonds on any relevant payment date subject to compliance with certain conditions, including no dividend having been declared on SSE’s ordinary shares. The proceeds were used to redeem the 2012 Hybrid Bonds, which had an issuer first call date on 1 October 2017. Due to the 2017 Hybrid Bonds having a fixed redemption date, they have been accounted for as a Debt item. This is in contrast to the previous hybrid issues which have no fixed redemption date and are accounted for as Equity.

The total hybrid capital for the SSE Group as at 31 July 2017 (with sterling equivalents (where applicable) as at that date) totalled £2.2 billion and was as follows:

SSE	• £750 million Hybrid Equity Capital Bond – perpetual with first call date 10 September 2020
	• €600 million (£440.5 million) Hybrid Equity Capital Bond – perpetual with first call date 1 April 2021
	• €900 million (£753.1 million) Hybrid Debt Capital Bond – maturing 16 September 2077 with first call date 16 September 2022
	• £300 million Hybrid Debt Capital Bond – maturing 16 September 2077 with first call date 16 September 2022

Group Strategy and Financial Outlook

SSE expects the planned SSE Energy Services transaction to be completed in the second half of financial year 2018/19 making this a year of transition for SSE.

Completion of this transaction is subject to necessary shareholder and regulatory approvals, which SSE believes will be secured. In addition to providing benefits for energy customers and the energy market as a whole, its completion will: (i) give SSE a greater focus on the infrastructure and related services relied on by energy customers, which is more aligned to its core competencies; and (ii) give investors greater visibility of assets and earnings in the future, the majority of which will come from regulated networks and renewables.

The reshaped and renewed SSE will have a simple purpose: to responsibly provide energy and related services needed now and in the future. Its vision is to be a leading provider of energy and related services in a low carbon world; and its strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way.

- “Create value” means focusing on earning returns for shareholders, sustaining skilled jobs and making a positive economic and social contribution to the countries in which SSE operates;
- “Developing, operating and owning” means being efficient in developing, operating and owning infrastructure and services and being agile in creating and securing value from them;
- “Energy and related infrastructure and services” means maintaining a range of complementary business activities with a depth of insight on a core sector and related infrastructure; and
- “Sustainable way” means doing things responsibly.

The financial objective of this strategy is to remunerate shareholders’ investment through the payment of dividends. SSE believes that its dividends should be sustainable, based on the quality and nature of its assets and operations, the earnings derived from them and the longer-term financial outlook.

Investment and capital expenditure

SSE’s strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure and services in a sustainable way. Central to this is investing in assets for which returns are expected to be clearly greater than the cost of capital. New assets should complement SSE’s existing portfolio of assets and their development and construction should be governed and executed in an efficient manner and in line with SSE’s commitment to strong financial management.

SSE is currently expecting investment and capital expenditure to total around £6 billion across the five years to March 2023. Economically-regulated electricity networks and government-supported renewable sources of energy are expected to account for around 70 per cent. of this. As is to be expected, the investment is weighted more towards the first half of the five-year period than the second and includes around £1.7 billion planned for 2018/19 and around £1.2 billion currently planned for 2019/20.

Around 80 per cent. of the £6 billion is committed. It includes around £2.8 billion of investment in electricity networks investment, which should support further growth in the RAV to around £10 billion in 2023. It also includes investment in electricity generation such as a new £350 million highly efficient and flexible gas-fired power station at Keadby 2 in Lincolnshire, an additional multi-fuel plant and some potential investment in offshore wind farms (in respect of multi-fuel, when Ferrybridge Multi-fuel 2 is complete in 2019, SSE will hold a 138MW stake (50 per cent.), with its share of adjusted operating profit in respect of Ferrybridge Multi-fuel 1 being £26 million for the year ended 31 March 2018). Based on prudent successful contract for difference auction outcomes, investment and capital expenditure for renewables is forecast to be around £6.0 billion for the next five years to 2022/23. Historically, investment and capital expenditure was at £1.3 billion in 2008/09 (£315 million for electricity networks, £526 million for renewables and £440 million for other items) and was at £1.503 billion in 2017/18 (£760.3 million for electricity networks, £301.7 million for renewables and £447 million for other items), with a total of £15 billion for the period (£11 billion for networks and renewables). It has not dropped below £1.2 billion since 2008/09. In the same period (2008/09 to 2017/18) renewables capacity had increased from 2.4GW to 3.7GW and electricity networks RAV has increased from £2.7 billion to £6.5 billion.

Final investment decisions will be determined by the need to secure returns that are clearly greater than the cost of capital, enhance earnings and support the delivery of dividend commitments. Indeed, SSE believes that strict financial discipline is more important than ever as auctions become an increasing feature of energy networks infrastructure provision and SSE will result taking on in appropriate risks or accepting returns on investment that are financially unsustainable.

SSE's continued investment in 2018/19 and 2019/20 means it currently expects its adjusted net debt and hybrid capital to peak at around £10 billion. With its annual investment and capital expenditure likely to be at lower levels in the subsequent three years, SSE's cash flow based on its current plans should allow adjusted net debt and hybrid capital to fall back towards £9 billion by 2023.

SSE's debt structure remains strong, with around £9.5 billion of medium/long-term borrowings in the form of issued bonds, European Investment Bank debt and other loans. Around £5.5 billion of medium/long term borrowings are scheduled to mature in the period to March 2023.

This outlook is based on completing the planned SSE Energy Services transaction, the investment and capital expenditure plans described above, planned changes to the Scrip dividend scheme and delivering new dividend commitments. At the same time, opportunism and agility will continue to be important to SSE and if good opportunities to invest in, or acquire, new assets emerge that are consistent with SSE's approached to discipline in financial decision-making, levels of adjusted net debt and hybrid capital may increase; but this would be in direct support of adjusted earnings per share and the dividend.

Environment and Climate Change

At the heart of SSE's strategy is a commitment to contribute substantively to the transition to a low-carbon electricity system. Both the UK and Ireland ratified the Paris Agreement in 2016, committing to undertake ambitious efforts to combat climate change and adapt to its impacts. In the UK, there is ongoing consensus to meet the ambitions of the 2008 Climate Change Act, exemplified by the work of the UK Committee on Climate Change (CCC) and by the content of the UK Government's Clean Growth Strategy. The Ireland Energy White Paper reaffirmed the Irish Government's commitment to decarbonising the energy mix through specific actions to achieve its 2050 target.

Within this context, SSE has considered its operational portfolio and established a strategy consisting of three key actions which will support the transition to a low-carbon electricity system:

1. Investing significantly in renewable energy: SSE has the largest renewable energy capacity across the UK and Ireland at around 3.8GW (inc. pumped storage), over 500MW of which was connected in 2017/18, and its output from renewable sources increased from 7.9TWh to 9.4TWh between 2016/17 and 2017/18. SSE has invested over £3.5bn in renewables since 2010 and has committed to investing significantly in renewables over the next five years.
2. Moving from a portfolio weighted towards coal and gas, to one weighted towards renewables and complementary flexible thermal generation: SSE has joined the Powering Past Coal Alliance and pledged to phase out all coal-fired generation, in line with UK Government policy of phasing out unabated coal by 2025, but believes ongoing gas generation will still play an important role in enabling a flexible and reliable low-carbon electricity system. In 2017/18 coal-fired generation contributed around 4 per cent. of SSE's total generation output, renewable generation (inc. pumped storage) contributed 28 per cent., and gas- and oil-fired generation contributed 66 per cent., of which the vast majority came from Combined Cycle Gas Turbine (CCGT) generation.
3. Enabling more renewable generation to connect to the electricity network: SSEN plays an essential role in enabling the electricity generated by renewables to reach homes and businesses across GB. SSE has invested over £2.3bn in new electricity transmission infrastructure since the current price control period began in 2013. In 2017/18, around 400MW of new renewable generation capacity was connected.

In 2017/18, SSE's total carbon emissions (scope 1, 2 and 3) increased by 11 per cent. compared to the previous year. This was largely a result of a 27 per cent. rise in scope 1 emissions, which contributed 47 per cent. of SSE's total carbon emissions, due to increased thermal generation output during 2017/18 resulting from the unusually cold weather across the country.

Scope 3 emissions, which contributed 49 per cent. of SSE's total carbon emissions, also increased by 2 per cent. over the period. This was a result of the rise in fuel purchased due to increases in thermal generation output, increasing upstream emissions associated with the extraction, refining and transport of raw fuels purchase.

Scope 2 emissions, which contributed only 4 per cent. of total carbon emissions, reduced by 20 per cent. mainly due to lower electricity losses on SSE's electricity networks and changes in carbon emission factors due to decarbonisation of the UK grid.

SSE has been responding to the CDP Climate Change Programme since 2008, and in 2017 was awarded a B for its performance.

SSE's total generation output increased by 26 per cent. between 2016/17 and 2017/18. Therefore, despite the increase in scope 1 emissions, the carbon intensity of SSE's generated electricity increased only marginally from 304gCO₂e/kWh to 307gCO₂e/kWh over this period. This means that SSE's 2020 target to reduce the carbon intensity of its electricity generation by 50 per cent. compared to 2006 was met early for the second consecutive year.

Regulatory Environment

Electricity Generation

The electricity industry in the UK is regulated by the Authority. The principal objective of the Authority, as set out under the Electricity Act 1989, is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems; wherever appropriate by promoting effective competition. In respect of the wholesale electricity market, OFGEM's primary objective is to help markets operate more effectively by removing barriers, for example by ensuring there is greater transparency of information to all parties, including customers. In addition, when necessary and appropriate to do so, OFGEM use their powers to monitor and address any anti-competitive behaviour or practices which may affect the market. OFGEM provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The Authority's duties include ensuring that licence holders are able to finance their statutory and licence obligations, and that they operate their business with regard to the effect on the environment.

SSE's generation businesses generate electricity under licences issued under the Electricity Act 1989. The electricity generation licences oblige parties to accede to and/or comply with the sets of rules or "codes" ("**Codes**") that govern the operation of the electricity generation market. The main Codes are the Balancing and Settlement Code, the Connection and Use of System Code, the Distribution Connection and Use of System Agreement, the Grid Code and the Distribution Code. The current structure of the competitive UK market was put in place in 2005 when the England and Wales market rules were applied to Scotland, thereby creating the British Electricity Trading and Transmission Arrangements ("**BETTA**"). Significant modifications to the BETTA market operating rules require approval by the Authority.

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

Following the passing of the Energy Act, a number of reforms to the UK electricity market have now been implemented, including the introduction of new long term contracts (Contracts for Difference) to support low carbon generation as well as a capacity mechanism to ensure generation capacity adequacy. In December 2014, SSE secured agreements to provide a total of 4,409MW of de-rated electricity generation capacity from October 2018 to September 2019 at a price of £19.40/kW as a result of the first Capacity Market Auction process. In the second auction (for capacity delivery from October 2019 to September 2020), SSE secured agreements to provide a total of 3,150MW of de-rated electricity generation capacity at a price of £18/kW. In the auction held in December 2016 (for capacity delivery from October 2020 to September 2021), SSE secured agreements to provide a total of 3,239MW of de-rated electricity generation capacity at a price of £22.50/kW.

In December 2013, National Grid was permitted by OFGEM to procure additional balancing reserves through SBR (Supplemental Balancing Reserve) contracts. SBR was targeted at generating plant that would otherwise be unavailable, and was designed to provide short-term additional reserves to support National Grid in balancing the transmission system if there is insufficient generation capacity available in the market to meet demand. Following the Government's announcement in March 2016 that it would be bringing forward the Capacity Market for delivery in 2017/18, OFGEM stated that SBR services would not be needed for 2017/18. SSE has secured three SBR contracts for Peterhead, Fiddler's Ferry and Keadby for winter 2016/17. Separately, in March 2016, SSE also secured an additional ancillary services contract with National Grid for Fiddler's Ferry, to provide Black Start capability.

The environmental impact of the operation of large generating stations in the UK is regulated by the Environment Agency in England and Wales ("EA"), Natural Resources Wales in Wales ("NRW") and the Scottish Environmental Protection Agency in Scotland ("SEPA"). EA and SEPA were both established under the Environment Act 1995, whereas NRW only became operational from 1 April 2013 when it took over the management of natural resources of Wales. The operation of SSE's generating plant in England and Wales and Scotland is carried out under permits issued by the relevant regulator. These permits impose limits on all activities that could impact the environment, including emissions to air and water and the production and disposal of wastes. Formal statutory notices may be issued by EA, NRW and SEPA in relation to any environmental incidents. The EA also issues permits under the EU emissions trading scheme for carbon dioxide emissions and ensures industry compliance with such scheme. SSE's carbon emissions data is externally verified by a UK accreditation service.

Electricity and Gas Supply

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

OFGEM is now looking at introducing a new approach to regulation that will be reliant on principles, rather than prescriptive rules. This piece of work, referred to as the "Future of Retail Regulation" project, will examine the current rulebook with a view to introducing additional overarching principles whilst removing areas of unnecessary prescription. OFGEM hopes that this approach will safeguard the interests of customers, whilst at the same time ensuring that regulation does not stand in the way of innovation. As part of this workstream, OFGEM consulted on a number of licence changes in 2017, which included new principles governing sales and marketing, whilst at the same time removing some of the prescriptive requirements in this area. In addition, OFGEM amended the existing Standards of Conduct, which is designed to widen the scope of the principles, and introduced a new principle regarding the treatment of vulnerable customers. Further refinement to OFGEM's approach to principles-based regulation is expected through the course of 2018 and 2019.

On 27 March 2014, OFGEM published its state of the market assessment report setting out its findings in relation to competition in the energy market. The report concluded that despite the reforms introduced by OFGEM, there continues to be significant consumer and public concern regarding the energy market. The report specifically highlights concerns around: weak customer response; evidence of incumbency advantages; evidence of possible tactic coordination; vertical integrations and barriers to entry; and increased supplier profits. As a result, OFGEM made a reference to the CMA to investigate the supply and acquisition of energy in the UK.

The CMA's Final Report established that:

- wholesale gas-markets are liquid and transparent and do not act as a barrier to entry or lead to other market inefficiencies;
- vertical integration does not give companies an unfair advantage;
- there is no unilateral market power in generation;

- there is no “over-compensation” of generators; and
- there is no coordination, tacit or otherwise, between household energy suppliers.

The CMA’s Final Orders, published in December 2016, sought to address a perceived problem of weak customer response and the CMA’s conclusion that the customer detriment due to shortcomings in competition in retail energy is a headline figure of £1.4 billion/year. Technically, this is a measure of the gains from switching and SSE argued strongly in its submissions that the CMA is wrong to consider this a measure of detriment.

Key remedies proposed in the Final Report representing risks to SSE were:

- The **PPM price cap**, which will be transitional and in force from 2017-2020. It will apply to all PPM customers with either ‘dumb’ meters or SMETS1. The CMA has accepted that the price cap should not apply to customers with SMETS 2 smart meters.
- The **Disengaged Customer Database** will store information on customers who have been on a standard variable tariff with the same supplier for three years or more. By late 2018, it is proposed that suppliers will be able to access the database of Disengaged Domestic Customers who have not opted out.
- On **locational pricing of transmission losses**, the CMA ordered National Grid (supported by industry) to implement a solution based on full marginal pricing.
- On **financial reporting**, OFGEM consulted on changes to the requirements for the Consolidated Segmental Statements, to include provision of separate balance sheets for generation and supply as well as disaggregated wholesale energy costs.
- The CMA has introduced SLC 32A (which is, as stated above, a new licence condition giving OFGEM the power, if necessary, to compel suppliers to participate in trial of customer communications).
- On **restricted hours meters**, suppliers must ensure that new and existing customers with restricted-hours meters (except Economy 7, Smart and Prepayment) can choose an unrestricted (single-rate) tariff without requiring a meter exchange. SSE already did this for a small number of existing customers (via manual work-arounds) but making this available for all customers in this group has required process and system changes. Suppliers must also provide a range of information to customers with restricted meters and to the applicable Citizens Advice body.
- The other remedies, including those for microbusiness, softening of the Retail Market Review rules, and the recommendations to the Department of Energy and Climate Change (now the Department for Business, Energy and Industrial Strategy) and OFGEM on improved governance are also in the package but represent lower levels of risk.

Significant resource and investment has been deployed to implement the proposed remedies within the necessary timeframes and to customers’ satisfaction. There is an unprecedented pipeline of technological change placing real constraints on licensed suppliers’ IT systems, including:

- The smart meter rollout;
- The faster switching programme, which aims to reduce significantly the time it takes customers to switch supplier and make the process more reliable;
- The midsts programme, which enables customers to request data about their usage and other information from their supplier, and to give permission for this to be shared with intermediaries such as internet comparison websites to help them find a better deal; and

Project Nexus, which was the project for the replacement of the UK Link system (operated by Xoserve) which carries out energy settlements, supply point administration and other functions in the British gas market.

In the 2017 UK general election, several political parties, including the Conservative Party, proposed that further intervention was required in the market. As noted in the Regulatory Risks section above, the Government included reference in the 2017 Queen’s Speech, which noted that it intended to bring forward measures to ensure fairer markets for consumers and to reduce energy bills.

On 21 June 2017, the Secretary of State wrote to OFGEM to request “advice” as to what the regulator might do to address the issues in the market. On 3 July 2017, OFGEM responded to note that it would look at options including the potential extension of the PPM safeguard cap to a wider group of vulnerable customers. In October 2017, the Department for Business, Energy and Industrial Strategy proposed legislation to allow OFGEM to set an absolute cap for SVT customers in the UK. On 2 February 2018, OFGEM extended the PPM price cap to include around one million customers (of suppliers with more than 250,000 customers) who are on their supplier’s default tariff and in receipt of the Vulnerable Safeguard Tariff. The Vulnerable Safeguard Tariff will end in December 2019 if it is not replaced by other tariff interventions. On 26 February 2018, the UK government introduced the Domestic Gas and Electricity (Tariff Cap) Bill into Parliament and stated its intention that OFGEM should implement the tariff cap by the end of the year. The proposed legislation would allow OFGEM to set a temporary price cap for SVT and certain other default tariff customers in the UK and would last until 2020, with a maximum of three one-year possible extensions if OFGEM recommends to the Secretary of State that conditions are not yet in place for effective competition. The SVT/default price cap must end by the end of 2023.

In May 2018, OFGEM published a formal consultation on its approach to delivering the Default Tariff Cap being legislated for through the Bill, setting out its intention to publish a statutory consultation and impact assessment in early August 2018, ahead of a planned implementation by the end of December 2018.

In the event that the Default Tariff Cap is not in place by the end of 2018, OFGEM has consulted on extending the Vulnerable Safeguard Tariff to at least another two million vulnerable or low-income households ahead of winter 2018/19.

There remains uncertainty about the methodology that will be used to set the level of the Default Tariff Cap and the Vulnerable Safeguard Tariff. The extension of the Vulnerable Safeguard Tariff and/or the introduction of a Default Tariff Cap could have a material adverse effect on SSE’s business, financial performance, results of operation and prospects.

Electricity Transmission

In the north of Scotland, the licensed transmission network owner is SHE Transmission plc (“**SHE Transmission**”).

SHE Transmission has a duty under the Electricity Act 1989 to develop and maintain an efficient, co-ordinated and economical system of electricity transmission that facilitates competition in the supply and generation of electricity. SHE Transmission is regulated by the Authority. Under the licence, where it is reasonable to do so, SHE Transmission is under a statutory duty to offer terms to connect any customer that requests a connection within its area and to maintain that connection. SHE Transmission’s licence may be terminated on 25 years’ notice given by the Secretary of State for Energy and Climate Change (or any successor) (the “**Secretary of State**”) and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

SHE Transmission is subject to a control on the prices it can charge and the quality of supply it must provide. Its activities are regulated under the transmission licence pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity transmission price control commenced on 1 April 2013. This covers the eight year period until 31 March 2021. The price control is called RIIO-T1. A consultation on the need to initiate a mid-period review of RIIO-T1 was conducted from November 2015 to January 2016. OFGEM issued its final decision in May 2016 that a mid-period review of RIIO-T1 for SHE Transmission was not required. In July 2017, OFGEM published an open letter on the RIIO-2 Framework, initiating the next price control review. It has subsequently issued a consultation on

changes to the RIIO framework. This process will now lead to development of the individual sector price controls and, ultimately, commencement of the RIIO-T2 settlement on 1 April 2021.

Under the RIIO-T1 price control model, OFGEM can approve large capital investments proposed by SHE Transmission. During 2014, OFGEM approved all three projects submitted by SHE Transmission: Caithness Moray, Kintyre Hunterston and Beaulieu Mossford overhead line. SHE Transmission completed in 2015 both the legacy Beaulieu Blackhillock Kintyre (cost of £94 million), and Beaulieu Mossford (cost of £68 million) overhead lines, and in 2016 completed the Kintyre Hunterston (cost of £210 million) overhead line, all three projects were completed on time and to budget. Caithness Moray is on course to be commissioned by the end of 2018 (estimated cost of £1.1 billion). SHE Transmission has also identified the need for a Transmission link to Orkney to facilitate the export of its substantial renewable generation potential to the mainland. Following the RIIO-T1 process it has submitted a Needs Case to OFGEM and is awaiting confirmation of regulatory approval in Summer 2018.

The Beaulieu Denny 400kV reinforcement project was completed (cost of £665 million) and energised in November 2015 (and was completed in 2016). In November 2016, OFGEM consulted on SHE Transmission's request for additional construction funding for efficient overspend outside its control. On 30 January 2017, OFGEM confirmed its decision is as per its consultation such that the full £58.8 million (2009/10 prices) of additional costs claimed are efficient. OFGEM will allow 47.3 per cent. (£27.8 million) to be included as an Asset Value Adjustment Event, with the additional revenue stream starting in 2017/18. The remaining £31 million will be recovered at the end of the TIRG (transmission investment for renewable generation) incentive period (2021/22).

Following the UK General Election on 8 June 2017, the Conservative Party has formed a minority government, working under an agreement with the Democratic Unionist Party. The absence of a majority means that the Government's ability to deliver its legislative agenda is uncertain. Prior to the election, the then Government had committed to introducing legislation giving OFGEM the powers to extend competition in transmission services. OFGEM has recently announced that this will not be taken forward in its current form due to the lack of available Parliamentary time. OFGEM remains committed to introducing greater competition, but the means by which this will happen, and the impact on the SSE Group, is now uncertain.

Electricity distribution

In the north of Scotland, SHEPD is the licensed distribution network owner and in southern and central England SEPD is the licensed distribution network owner. These are collectively known as Scottish and Southern Energy Power Distribution ("SSEPD").

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

Each of SHEPD and SEPD is subject to control on the prices it can charge and the quality of supply it must provide. Their operations are regulated under their distribution licences pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. OFGEM published its final determinations on the current RIIO-ED1 price control period on 28 November 2014, and SHEPD and SEPD confirmed their intention to accept this determination on 19 December 2014. The final determinations set the base revenue for SHEPD and SEPD for the 8 years from 1 April 2015.

In March 2015 BGT lodged an appeal with the CMA on the RIIO-ED1 final determination that could have affected the five distribution network operator groups, including SSEPD. The decision did not materially reduce the forecast

RIIO-ED1 return, nor as a consequence did it reduce the return below the target set by SSEPD and on which the price control settlements were accepted. Whilst the impact of the appeal on SSEPD was largely benign, the raising of the appeal has influenced the regulatory landscape and the way that future price controls will be set.

The RIIO-ED1 licence provided for a mid-period review of the price control settlement. The narrow focus of the review was limited to material changes in outputs resulting from changes in government policy or new outputs required to meet the needs of consumers. Identification of such output changes could lead to equivalent amended allowances. In 2017, OFGEM sought stakeholder views on potential output changes but also examined whether it was appropriate to consider price control topics out with the original scope; it categorised these as a discrete extension (rail electrification) and significant extension (financial and incentive performance and design) of the mid-period review. In April 2018, OFGEM concluded that a RIIO-ED1 mid-period review was not required and that it was not appropriate to widen the scope to address other issues.

On 22 June 2016, the Authority issued a notice under paragraph 2 of schedule 6A of the Competition Act 1998 outlining proposals to accept commitments made by SSE in relation to its network connections business. The Authority's proposals went out for consultation, which closed on 3 August 2016. The Authority considered representations made and consulted the CMA and European Commission. Acceptance of these commitments, confirmed by OFGEM's final decision notice of 7 November 2016, closes the 22 month investigation into allegations that SSE's processes and practices in the provision of connection information and quotations impeded competition in the SEPDLicensed area. The notice does not make any finding on alleged infringement of competition law and OFGEM has closed its investigation. The commitments offered are legally binding and SSE has committed to put in place new processes and procedures in relation to its connections activities. OFGEM considers that the commitments made fully address the competition concerns identified.

Gas distribution

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

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

Each network is subject to control on the prices it can charge and the quality of service it must provide. The operations of each network are regulated under its gas transportation licences pursuant to which income generated is subject to a regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current gas distribution price control commenced on 1 April 2013 and covers the eight year period until 31 March 2021. A consultation on the need to initiate a mid-period review of RIIO-GD1 was conducted from November 2015 to January 2016. OFGEM issued its final decision in May 2016 and confirmed its initial view that a mid-period review of RIIO-GD1 was not required.

In July 2017, OFGEM published an open letter on the RIIO-2 Framework, initiating the next price control review. It has subsequently issued a consultation on changes to the RIIO framework. This process will now lead to development of the individual sector price controls and, ultimately, commencement of the RIIO-GD2 settlement on 1 April 2021.

TAXATION

The comments below, which apply only to persons who are beneficial owners of the Notes, concern only certain withholding obligations and reporting requirements with respect to the Notes and are of a general nature based on current United Kingdom tax law as applied in England and Wales, and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs), and are not intended to be exhaustive. The comments below do not deal with any other transaction implications of acquiring, holding or disposing of the Notes. They assume that there will be no substitution of an entity not resident in the UK for tax purposes in place of the Issuer and do not address the consequences of any such substitution (notwithstanding that such substitution is permitted by the terms and conditions of the Notes). References in this part to “interest” shall mean amounts that are treated as interest for the purposes of United Kingdom taxation. Any Noteholders or Couponholders who are in doubt as to their own tax position should consult their professional advisers.

1 Interest on the Notes

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

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

In all other cases, interest will generally be paid by the relevant Issuer under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs or exceptions or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty. However, there should be no withholding or deduction for or on account of UK income tax if the relevant interest is paid on Notes with a maturity date of less than one year from the date of issue and which are not issued under arrangements the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more. If any amount must be withheld by the relevant Issuer on account of UK tax from payments of interest on the Notes then such Issuer will, subject to the provisions of Condition 9 of the Terms and Conditions of the Notes, pay such additional amounts as will result in the Noteholders or Couponholders receiving an amount equal to that which they would have received had no such withholding been required.

Interest on the Notes constitutes UK source income for UK tax purposes and, as such, may be subject to UK tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a corporate Noteholder, carries on a trade through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable, in which case tax may be levied on the UK branch or agency, or permanent establishment. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

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

2 Other Rules Relating to United Kingdom Withholding Tax

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

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to withholding or deduction for or on account of United Kingdom income tax, subject to paragraph 1 above.

3 Proposed Financial Transaction Tax (“FTT”)

On 14 February 2013, the European Commission published a proposal (the “**European Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a “**participating Member State**”). However, Estonia has stated that it will not participate. The European Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the European Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established or deemed to be established in a participating Member State.

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

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

4 FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the U.K.) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an Amended and Restated Dealer Agreement dated 23 August 2018 (as amended or supplemented as at the Issue Date in respect of the relevant Notes, the “**Dealer Agreement**”) between the Issuers, the Permanent Dealers and the Arranger, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers. However, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

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

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

Selling Restrictions

United States

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

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

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

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

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

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

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

the expression "**retail investor**" means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of MiFID II; or
- (ii) a customer within the meaning of the IMD, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

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

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

Belgium

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Notes may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**"), and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Notes, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Notes, directly or indirectly, to any Belgian Consumer.

Japan

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

General

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

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

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

FORM OF FINAL TERMS

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

Final Terms dated [●]

[SSE plc]

Legal entity identifier (LEI): 549300K175VYLLMSK856/

[Scottish Hydro Electric Power Distribution plc]

Legal entity identifier (LEI): 549300OPROMBN0FGNC34/

[Scottish Hydro Electric Transmission plc]

Legal entity identifier (LEI): 549300ECJZDA7203MK64/

[Southern Electric Power Distribution plc]

Legal entity identifier (LEI): 549300SR1GYYNBZQGX56/

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

under the €10,000,000,000

Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “**IMD**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 23 August 2018 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectus [and the supplemental Prospectus] [is] [are] available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Prospectus dated [*original date*] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated 23 August 2018. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and must be read in conjunction with the Prospectus dated 23 August 2018 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Prospectus dated [*original date*] [and the supplemental Prospectus(es) to it dated [●]]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus [as so supplemented]. The Prospectuses [and the supplemental Prospectuses] are available for viewing at the website of the London Stock Exchange <http://londonstockexchange.com/exchange/news/market-news/market-news-home.html> and during normal business hours copies may be obtained from [●]].

- | | | |
|----|--|--|
| 1 | Issuer: | [SSE plc]/
[Scottish Hydro Electric Power Distribution plc]/
[Scottish Hydro Electric Transmission plc]/
[Southern Electric Power Distribution plc] |
| 2 | (i) [Series Number:] | [●] |
| | (ii) [Tranche Number:] | [●] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount of Notes: | [●] |
| | (i) [Series:] | [●] |
| | (ii) [Tranche:] | [●] |
| | (iii) [Date on which the Notes become fungible:] | Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with [●] on [●]/the Issue Date/ exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [29] below [which is expected to occur on or about [●]].] |
| 5 | Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [●]] |
| 6 | (i) Specified Denominations: | [●] [and integral multiples of [●] in excess thereof up to and including [●]. No notes in definitive form will be issued with a denomination above [●] |
| | (ii) Calculation Amount: | [●] |
| 7 | (i) Issue Date: | [●] |
| | (ii) Interest Commencement Date: | [[●]/Issue Date/Not Applicable] |
| 8 | Maturity Date: | [●] |
| 9 | Interest Basis: | [[●] per cent. Fixed Rate]
[[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate]
[Zero Coupon]
[RPI Linked]
(further particulars specified below) |
| 10 | Redemption/Payment Basis: | [Redemption at par]
[RPI Linked Redemption] |

- 11 Change of Interest or [●]/Not Applicable
Redemption/Payment Basis:
- 12 Put/Call Options: [General Put]
[Restructuring Event Put]
[Change of Control Put]
[SSE Restructuring Event Put]
[Issuer Call]
[Make-Whole Call]
[Issuer Maturity Par Call]
[Clean-Up Call]

- 13 [[Date [Board] approval for issuance of [●] [and [●], respectively]]
Notes obtained:]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (i) Rate[(s)] of Interest: [●] per cent, per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (iv) Broken Amount(s): [●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [Actual/Actual][Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual (ICMA)]
- (vi) [Determination Dates: [[●] in each year/[Not Applicable]]
- 15 Floating Rate Note Provisions: [Applicable/Not Applicable]
- (i) Interest Period(s): [●]
- (ii) Specified Interest Payment Dates: [●]
- (iii) First Interest Payment Date: [●]
- (iv) Interest Period Date: [●]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (vi) Business Centre(s): [●]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [●]
- (ix) Screen Rate Determination:

- Reference Rate: [LIBOR/EURIBOR]
- Interest Determination Date(s): [●]
- Relevant Screen Page: [●]
- (x) ISDA Determination:
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - [ISDA Definitions: 2006]
- (xi) Linear Interpolation: [Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
- (xii) Margin (s): [+/-][●] per cent. per annum
- (xiii) Minimum Rate of Interest: [●] per cent. per annum
- (xiv) Maximum Rate of Interest: [●] per cent. per annum
- (xv) Day Count Fraction: [Actual/Actual][Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual (ICMA)]
- 16 Zero Coupon Note Provisions: [Applicable/Not Applicable]
 - (i) Amortisation Yield: [●] per cent. per annum
 - (ii) Day Count Fraction in relation to Early Redemption Amount: [Actual/Actual] [Actual/Actual (ISDA)]
[Actual/365 (Fixed)]
[Actual/360]
[30/360/360/360/Bond Basis]
[30E/360/Eurobond Basis]
[30E/360 (ISDA)]
[Actual/Actual (ICMA)]
- 17 RPI Linked Note Provisions: [Applicable/Not Applicable]
 - (i) Rate of Interest: [●]/[Not Applicable]
 - (ii) Base Index Figure: [●]/[Not Applicable]
 - (iii) Reference Gilt: [●]/[Not Applicable]
 - (iv) Index Figure applicable: [3 months lag/8 months lag]
 - (v) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]): [●]/[Not Applicable]
 - (vi) Interest Determination Date(s): [●]
 - (vii) Interest Period(s): [●]
 - (viii) Specified Interest Payment Dates: [●]
 - (ix) Business Day Convention: [Floating Rate Convention/Following Business Day]

	Convention/Modified Convention/Preceding Business Day	Following Business Day
(x) Business Centre (s):	[●]	
(xi) Minimum Rate of Interest:	[●] per cent. per annum	
(xii) Maximum Rate of Interest:	[●] per cent. per annum	
(xiii) Day Count Fraction:	[Actual/Actual] [Actual/Actual (ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360/360/360/Bond Basis] [30E/360/Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual (ICMA)]	

PROVISIONS RELATING TO REDEMPTION

18	Call Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
19	Make-Whole Redemption:	[Applicable/Not Applicable]
	(i) Make-Whole Redemption Date(s):	[●]
	(ii) Make-Whole Amount(s):	
	(a) Specified Time:	[●]
	(b) Redemption Margin:	[●] per cent.
	(iii) If redeemable in part:	[●]
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
20	Issuer Maturity Par Call:	[Applicable/Not Applicable]
	Notice period:	[●]
21	Clean-Up Call Option:	[Applicable/Not Applicable]
	(i) Clean-Up Redemption Amount:	[●] per Note of [●] Specified Denomination
22	General Put Option:	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
23	Restructuring Event Put Option:	[Applicable/Not Applicable]
	(i) Restructuring Event Redemption Amount:	[●]
	(ii) Put Period:	[●]

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

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 29 Form of Notes: Bearer Notes
- [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
- [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]
- [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

- [Registered Note]
- 30 New Global Note intended to be held in a manner which would allow Eurosystem eligibility: [Not Applicable/Yes/No]
 [Note that the designation “Yes” simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)][include this text for registered notes] and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] *[Include this text if “Yes selected, in which case the Notes must be issued in NGN form]/*
 [Whilst the designation is specified as “No” at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper,][include this text for registered notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]
- 31 Financial Centre(s): [Not Applicable/[●]]
- 32 Talons for future Coupons to be attached to Definitive Notes: [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
- 33 U.S. Selling Restrictions: [Reg. S Compliance Category 2; C RULES/ D RULES/ TEFRA not applicable]

THIRD PARTY INFORMATION

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

Signed on behalf of the Issuer:

By:
 Duly authorised

PART B—OTHER INFORMATION

1 LISTING

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

2 RATINGS

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

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

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

4 [Fixed Rate Notes only — YIELD]

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

5 [USE OF PROCEEDS]

- Use of Proceeds: [General corporate purposes/To [finance/refinance] Eligible Green Projects
(See "Use of Proceeds" wording in Base Prospectus)]

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

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

7 OPERATIONAL INFORMATION

- ISIN: [●]
Common Code: [●]
CFI: [[●]/Not Applicable]
FISN: [[●]/Not Applicable]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/[●]]
Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying [●]
Agent(s) (if any):

GENERAL INFORMATION

- (1) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or before 29 August 2018. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
- (2) Each Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the establishment of the Programme. The update of the Programme was authorised by (a) resolutions of the Board of Directors of SSE passed on 23 May 2018 and 24 May 2018, (b) resolutions of the Board of Directors of SHEPD passed on 18 July 2018, (c) resolutions of the Board of Directors of SHE Transmission passed on 18 July 2018 and (d) resolutions of the Board of Directors of SEPD passed on 18 July 2018, respectively.
- (3) There has been no significant change in the financial or trading position of (a) SSE or the SSE Group since 31 March 2018 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2018.
- (4) There has been no material adverse change in the prospects of (a) SSE or the SSE Group since 31 March 2018 or (b) SHEPD, SHE Transmission or SEPD since 31 March 2018.
- (5) There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which SSE, SHEPD, SHE Transmission or SEPD (as the case may be) is aware) involving (a) SSE or any of its subsidiaries or (b) SHEPD, SHE Transmission or SEPD during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of SSE and/or its subsidiaries or SHEPD, SHE Transmission or SEPD (as applicable).
- (6) Each Bearer Note having a maturity of more than one year, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
- (7) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (8) For so long as Notes may be issued pursuant to this Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of any of the Paying Agents:
 - (i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons and the Talons);
 - (ii) the Agency Agreement;
 - (iii) the Memorandum and Articles of Association of each Issuer;

- (iv) the published annual report and audited consolidated financial statements of SSE for the financial years ended 31 March 2017 and 31 March 2018, respectively, and the audited financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2017 and 31 March 2018, respectively;
- (v) each Final Terms;
- (vi) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus; and
- (vii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

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

- (9) KPMG Audit Plc, Chartered Accountants (regulated by the Institute of Chartered Accountants of England and Wales) rendered unqualified audit reports on (i) the consolidated financial statements of SSE for the financial years ended 31 March 2017 and 31 March 2018, respectively and (ii) the financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2017 and 31 March 2018, respectively.
- (10) The Issuers do not intend to provide any post-issuance information in relation to any issues of Notes.
- (11) Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for any of the Issuers, and/or their affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of any of the Issuers and/or their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

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

REGISTERED OFFICES OF THE ISSUERS

SSE plc

Inveralmond House
200 Dunkeld Road
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Scottish Hydro Electric Power Distribution plc

Inveralmond House
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Perth PH1 3AQ

Scottish Hydro Electric Transmission plc

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The Bank of New York Mellon, London Branch

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REGISTRAR, PAYING AGENT AND TRANSFER AGENT

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To the Dealers and the Trustee as to English law

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