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 "**FCA**") 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 FCA (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**").

This Prospectus has been approved by the FCA, as competent authority under Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation; such approval should not be considered as (a) an endorsement of the Issuers; or (b) an endorsement of the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

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 (EU) 2016/97 (the "**IDD**"), 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) and the Administrator of EURIBOR (European Monetary Markets Institute) appear 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**").

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 Baa1 by Moody's Investors Service Ltd. ("**Moody's**") and BBB+ by S&P Global Ratings Europe Limited ("**S&P**"). Each of Moody's and S&P 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.
Barclays
BNP PARIBAS
Bank of America Merrill Lynch
Lloyds Bank Corporate Markets
MUFG
Morgan Stanley
NatWest Markets
RBC Capital Markets
Santander Corporate & Investment Banking

18 September 2019

*This document comprises a base prospectus for the purposes of the Prospectus Regulation 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**").*

*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 the Prospectus Regulation and for the purpose of giving information with regard to SHEPD (the "**SHEPD Prospectus**").*

*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 the Prospectus Regulation and for the purpose of giving information with regard to SHE Transmission (the "**SHE Transmission Prospectus**").*

*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 the Prospectus Regulation 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**").*

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, the information contained in the SSE Prospectus is in accordance with the facts and the SSE Prospectus 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, the information contained in the SHE Transmission Prospectus is in accordance with the facts and the SHE Transmission Prospectus 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, the information contained in the

SHEPD Prospectus is in accordance with the facts and the SHEPD Prospectus 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, the information contained in the SEPD Prospectus is in accordance with the facts and the SEPD Prospectus 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. If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of a Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Dealer or such affiliate on behalf of the Issuers in such jurisdiction.

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.*

***Singapore Securities and Futures Act Product Classification** – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), unless otherwise specified before an offer of Notes, each Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

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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 2018 (included on pages 141 to 227 and pages 240 to 243 of the 2018 Annual Report of SSE) (https://sse.com/investors/reportsandresults/media/g44hag2d/sse-28225-annual-report-2018-web.pdf) and 2019 (included on pages 143 to 247 and pages 260 to 264 of the 2019 Annual Report of SSE) (https://sse.com/investors/reportsandresults/media/0zva4vg0/sse-31464-annual-report-2019-web.pdf), respectively,

(ii) the audited financial statements of SHEPD for the financial years ended 31 March 2018 (included on pages 18 to 39 of the 2018 Statutory Accounts of SHEPD) (https://www.ssen.co.uk/Library/FinancialInformation/) and 2019 (included on pages 17 to 38 of the 2019 Statutory Accounts of SHEPD) (https://www.ssen.co.uk/Library/FinancialInformation/), respectively,

(iii) the audited financial statements of SHE Transmission for the financial years ended 31 March 2018 (included on pages 17 to 35 of the 2018 Statutory Accounts) (https://www.ssen.co.uk/Library/FinancialInformation/) and 2019 (included on pages 16 to 35 of the 2019 Statutory Accounts) (https://www.ssen.co.uk/Library/FinancialInformation/), respectively,

(iv) the audited financial statements of SEPD for the financial years ended 31 March 2018 (included on pages 18 to 39 of the 2018 Statutory Accounts of SEPD) (https://www.ssen.co.uk/Library/FinancialInformation/) and 2019 (included on pages 16 to 36 of the 2019 Statutory Accounts of SEPD) (https://www.ssen.co.uk/Library/FinancialInformation/), 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;

(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; and

(xiv) the section entitled "Terms and Conditions of the Notes" on pages 32 to 74 of the Prospectus dated 23 August 2018 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.

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 Article 23 of the Prospectus Regulation, 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 FCA and Article 23 of the Prospectus Regulation.

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

Risks related to the relevant Issuer's business activities and industry

Commodity Price Risk, Procurement Risk and Security of Supply

The SSE Group will be exposed to fluctuations in both the physical volume and price of key commodities, including electricity, gas and CO_2 permits, oil and related foreign exchange values. 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.

In 2018/19, SSE's Energy Portfolio Management ("**EPM**") division incurred a significant operating loss that was not expected at the start of the financial year. Around the start of 2018/19, as part of its ongoing assessment of SSE's energy portfolio and the risks and opportunities associated with it, and drawing on external as well as internal analysis, the Board agreed with management's analysis that wholesale gas prices would most likely fall from the then prevailing levels.

As a combined result of the above, the uncertainty about the timing, level and impact of the default tariff cap eventually introduced on 1 January 2019, and mindful of the extent to which the value and earnings of SSE's assets are linked to energy commodity prices, the Board agreed that SSE should maintain a "short" position on its gas requirements, with a view to securing the gas needed to meet those requirements when prices were lower. This judgement was also influenced by the fact that there is lower market liquidity for energy-related commodities over longer time periods. Adopting energy positions of this kind, based on analysis and judgement, was not unusual, or unprecedented for SSE, as reflected in its previous risk management and derivative financial instrument disclosures relating to International Accounting Standard 39.

In addition to ongoing management oversight of financial and operational performance, each year, following approval of the annual budget in March, the Board monitors financial and operational performance monthly, including significant market commodity price movements and their impact. During the early months of 2018/19, wholesale gas prices proved to be higher than expected for longer than expected. This is illustrated by the fact that over the first 6 months of 2018/19, UK gas prices rose by around 50% for each of the forward looking three seasons (winter 18/19, summer 19 and winter 19/20). A significant portion of the increase summarised above, particularly in respect of the 2018/19 winter, occurred subsequently, in August and early September 2018. In this

period, there was unusually high volatility in the UK gas markets and the prices represented some of the highest seen in over 20 years for forward seasons.

Following agreed action to effectively "cap" the adjusted operating loss in EPM that arose as a result of gas prices being higher than expected for longer than expected, the loss out-turned at £284.9 million for 2018/19 and is currently forecast to be around £115 million for 2019/20.

The Board then accelerated a review of how SSE should manage future sources of exposure to fluctuations in the volume and price of key energy commodities following the planned separation of SSE Energy Services. The objective of this was to identify and implement an approach consistent with SSE's increasing focus on its core businesses of regulated energy networks and renewable sources of energy, complemented by flexible thermal generation and business energy sales.

SSE will now generally seek to hedge its broad exposure to commodity price variation 12 months in advance of delivery, and will transition to this approach such that it will be in place from the start of the 2020/21 financial year, ensuring that trading positions cannot have a material impact on SSE Group earnings. Energy commodity-related risk itself will be managed within SSE's business units, with EPM becoming an operational and transactional function to ensure business units' requirements are met.

The markets for the key commodities are driven by global supply and demand, which is itself influenced by a number of complexities including global economic growth, the weather, international and national agreements on climate change and generation 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

The risk that the combination of the cost of providing reliable and sustainable energy and the level of customers' incomes means that energy becomes unaffordable to a significant number of SSE's customers. This risk is directly connected to political interventions and commodity price exposure.

The material influencing factors are, fluctuations in the cost of fuels, generation technology changes, macro-economic impacts on household and business incomes, supply chain cost management, public policies, including those aimed at reducing carbon emissions and energy consumption, political interventions, such as renationalisation of any part of the UK's energy infrastructure and required investment in the upgrading of the UK's energy infrastructure.

The key developments in 2018/19 include: continued uncertainty surrounding Brexit and its longer-term economic impact, including on households and businesses; managing the implementation of the price cap on standard variable energy tariffs which came into effect on 1 January 2019; and managing the impact of costs imposed on network operators and energy retailers as a result of an increased number of supplier failures.

Failure to deliver energy at an affordable price to customers could have a material adverse effect on the SSE Group's business, reputation, financial performance and prospects.

Energy Infrastructure Failure

The SSE Group's electricity networks, generating plant and gas storage facilities 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.

Potential factors that could influence the risk to the SSE-owned energy networks include Government policy regarding the operation of the energy network which relates to security of supply, including the implications of Labour Party proposals for a much greater role for the state in energy provision. Also the uncertainty surrounding Brexit and how this will impact continuing access to the European energy markets and continued inclusion of Northern Ireland in the all-island Single Electricity Market.

Industry and Company Transformation

The energy sector is undergoing constant technological improvement and political and regulatory change. There is a risk of the SSE Group failing to recognise and react appropriately to competition, technological advancements and stakeholders' evolving expectations. The key factors that influence these risks are:

- Fast developing customer needs in relation to efficient, innovative and flexible products and services;
- Climate change and the necessity to generate the energy required in modern society in a responsible and sustainable way, which includes ensuring that value is shared with those impacted by SSE's operations;
- The size, scale and number of change programmes underway, including those relating to regulatory or legislative requirements;
- Longer term capital investment plans and budgets;
- Geopolitical events; and
- Governance and decision-making frameworks within the Group.

The SSE Group's strategic focus is to be a leading energy company in a low-carbon world, by creating value for shareholders and society from developing, operating and owning energy and related infrastructure in a sustainable way. SSE has implemented a series of changes to give added focus to the core and complementary businesses that drive delivery of its strategy, and to improve visibility of the clean, low-carbon assets that shareholders want to invest in. A new Group operating model reflects the fact that the majority of SSE's operating profit is derived from regulated electricity networks and renewable sources of energy. 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.

Legal and Regulatory risk

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. In April, the European Council agreed to extend Article 50, for a second time, to 31 October 2019. The UK Parliament has not yet approved the Withdrawal Agreement negotiated between the UK and the EU and, therefore, the legal default remains that the UK will leave without a deal on 31 October unless legislation is

passed to prevent this. If the Withdrawal Agreement does receive approval from the UK Parliament before the negotiated deadline, there will be a transitional period in place until December 2020 which may also be extended.

As a result, there is significant uncertainty about the future relationship between the UK, the EU and its other Member States and the impact that any such future relationship may have on macroeconomic conditions in the UK.

The Official Opposition in the UK has made statements in respect of their intended actions in the UK energy market. For instance, the Labour party has stated its intention to take into state ownership regulated energy networks. 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 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 EU would be. The consequences of a potential future referendum on the SSE Group's business are therefore uncertain.

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.

A new SSE Group operating model reflects the fact that the majority of SSE's operating profit is derived from regulated electricity networks and renewable sources of energy. 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.

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 in contested and settlement enforcement cases on behalf of the Authority. Decisions have been made by these bodies regarding breaches of obligations and Competition Law, the use of the Authority's enforcement powers, whether or not to commence a criminal prosecution and the imposition of penalties or consumer redress packages. In 2018 the Enforcement Decision Panel's terms of reference were widened to include the exercise of powers to confirm or revoke orders in relation to licence breaches.

OFGEM's primary objective via its enforcement framework is a culture where businesses put their customers first and act in line with their obligations such that it could 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 imposed by the Authority has noticeably increased from levels seen in previous years.

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. In the financial year 2018/19, OFGEM resolved 7 compliance cases via alternative action with £5.9 million of redress payments being made by licensees, 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 the Authority has powers to, where it is appropriate, make a customer redress order should redress not be agreed in enforcement cases. The Authority has appointed the Energy Saving Trust until 2021 as its independent third party redress administrator which is tasked with allocating, managing and monitoring voluntary redress payments.

The Northern Irish regulator has also recently shown increased appetite for taking enforcement action. It has updated its enforcement procedure and financial penalties policy in the last year, introducing a considerably more detailed framework than before, bringing it more in line with the formal processes experienced with OFGEM. Accordingly, the enforcement risk in Northern Ireland can be viewed to have increased albeit the potential impact on SSE is far smaller than in Great Britain ("**GB**") due to the relative size of the SSE Airtricity business.

Any failure by any holder of a licence within the SSE Group to comply with the terms of its licence or other legal and regulatory obligations may lead to the taking of an enforcement action by the Authority that could have a material adverse impact on the relevant Issuer and/or the SSE Group's reputation and financial position as well as the increased risk of regulatory scrutiny by OFGEM or other regulators.

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.

Environmental, social and governance risks

Environmental and Weather Related 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 amendments 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.

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. Also the interconnected nature of international commodity markets and energy systems, particularly between Ireland, the UK and the rest of Europe adds complexity to the impact of weather on energy prices and SSE Group earnings. 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.

People and Culture

The SSE Group is reliant on the employment of an appropriately skilled, diverse and responsible workforce and leadership team, and maintain a healthy business culture which encourages and supports ethical behaviour and decision-making. While the SSE Group undertakes a number of activities to ensure that it attracts and retains the right level of staff, failure to attract or retain staff with the appropriate technical skills or leadership skills to maintain and manage the various operational assets of the SSE Group could adversely affect the SSE Group's operations and financial performance.

Cyber Security and Resilience Risks

The SSE Group is at risk that key infrastructure, networks or core systems are compromised or are otherwise rendered unavailable, due to software or hardware issues, including telecoms network and connectivity and power supplies, malicious cyber-attack, breach of information security rules, poor management of resilience expertise, employee and contractor understanding and awareness of information security requirements (such as the General Data Protection Regulation (Regulation (EU) 2016/679)).

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.

Risks relating to the relevant Issuer's financial position

Financial and Pension Fund 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.

The SSE Group has obligations in respect of two defined benefit pension schemes (Scottish Hydro and Southern Electric Pension Schemes) 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. However, the combined cash funding deficits are less than £200m, on pension scheme assets of over £4bn. Both schemes have increased hedging against interest rate and inflation impacts on liability valuations, and for the SHEPS scheme, longevity risk on pensioner liabilities have been hedged. 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 9 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 and in turn could have a material adverse effect on its financial position.

Large Capital 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, completed in January 2019. 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.

Any delay, unrecoverable costs and/or quality defects in relation to such projects could adversely affect the SSE Group's financial position, market position or reputation.

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 may also 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.

Future changes or uncertainty with respect to LIBOR and/or EURIBOR and/or other relevant benchmarks may adversely affect the value of Floating Rate Notes which reference LIBOR and/or EURIBOR and/or other relevant benchmarks.

The Issuer may issue Floating Rate Notes, the interest rate on which fluctuates according to fluctuations in a specified interest rate benchmark. Reference rates and indices, including interest rate benchmarks used to determine the amounts payable under financial instruments or the value of such financial instruments ("**Benchmarks**") including (but not limited to) LIBOR and EURIBOR, have in recent years been the subject of political and regulatory scrutiny and reform globally.

In the EU, changes have been implemented pursuant to the BMR, applicable since 1 January 2018. In the United Kingdom, the Financial Conduct Authority, which regulates LIBOR, has announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The continued publication of LIBOR on the current basis cannot be guaranteed after 2021. Similar regulatory developments in relation to other Benchmarks may lead to similar consequences for such other Benchmarks. Developments in this area are ongoing and could increase the costs and risks of administering or otherwise participating in the setting of a Benchmark, such that market participants are discouraged from continuing to administer or contribute to a Benchmark. These reforms and changes may also cause a Benchmark to perform differently than it has done in the past, to be discontinued or have other consequences which cannot be predicted. See also the risk factor headed, "– Floating Rate Notes – Benchmark Discontinuation" below.

Accordingly, in respect of a Note referencing a relevant Benchmark, such reforms and changes in applicable regulation could have a material adverse effect on the market value of and return on such a Note (including potential rates of interest thereon).

Floating Rate Notes – Benchmark Discontinuation

(i) *Temporary unavailability of the Relevant Screen Page*

Where Screen Rate Determination is specified as the manner in which the Rate of Interest (as defined in Condition 5(i)) in respect of Floating Rate Notes is to be determined, the Terms and Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (as defined in Condition 5(i)) (or its successor or replacement). In circumstances where such Original Reference Rate (as defined in Condition 5(k)(vii)) is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Terms and Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date (as defined in Condition 5(i)) before the Original Reference Rate was discontinued. Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

(ii) *Benchmark Events*

Benchmark Events (as defined in Condition 5(k)(vii)) include (amongst other events) the permanent discontinuation of an Original Reference Rate. If a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser (as defined in Condition 5(k)(vii)). After consulting with the Independent Adviser, the Issuer shall endeavour to determine a Successor Rate or, failing which, an Alternative Rate (each as defined in Condition 5(k)(vii)) to be used in place of the Original Reference Rate.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Issuer, the Terms and Conditions provide that the Issuer may vary the Terms and 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. In determining a Successor Rate or Alternative Rate and Adjustment Spread (if applicable) the Issuer may be entitled to exercise discretion and may be subject to conflicts of interest in exercising this discretion.

The use of any Successor Rate or Alternative Rate to determine the Rate of Interest and the application of an Adjustment Spread (if applicable) may result in the Notes 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.

(*iii)* *Potential for a fixed rate return*

The Issuer may 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 (as defined in Condition 5(i)) 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 is unable to appoint an Independent Adviser or has been unable 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, is likely to 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 risks the Floating Rate Notes, in effect, becoming fixed rate Notes.

(iv) *ISDA Determination*

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Terms and Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be determined by reference to

the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may adversely affect the value of, and return on, the relevant Floating 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 by the Issuers, the Dealers or any other person 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 is any Dealer responsible for (i) any assessment of the Green Bonds, or (ii) the monitoring of the use of proceeds. Investors should refer to SSE's website and its Green Bond Framework for further information. 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: 549300KI75VYLLMSK856 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 Merrill Lynch International Morgan Stanley & Co. International plc MUFG Securities EMEA plc 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.
Benchmark Discontinuation:	On the occurrence of a Benchmark Event, the Issuer may (subject to certain conditions and following consultation with an Independent Adviser) determine a Successor Rate, failing which an Alternative Rate and, if applicable, an Adjustment Spread, and any Benchmark Amendments in accordance with Condition 5(k). 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 'Baa1' and S&P has rated the Programme 'BBB+'. Each of Moody's and S&P 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, Prohibition of Sales to EEA Retail Investors, Belgium, Japan and Singapore. 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 maybe).

(e) **Exchange Free of Charge**: Exchange and transfer of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods**: No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3 STATUS

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

4 NEGATIVE PLEDGE

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

(a) all amounts payable by it under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the Security Interest to the satisfaction of the Trustee; or

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

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

5 INTEREST AND OTHER CALCULATIONS

(a) Interest on Fixed Rate Notes: Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f).

(b) **Interest on Floating Rate Notes and RPI Linked Notes**:

(i) *Interest Payment Dates:* Each Floating Rate Note and RPI Linked Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(f). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is:

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment,

(B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day,

(C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or

(D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

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

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

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

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 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:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30

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

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 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 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), [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 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:

$$\text{IFA} = \text{RPI}_{m-3} \frac{(\text{Day of Calculation Date}-1)}{(\text{Days in month of Calculation Date})} \text{x } (\text{RPI}_{m\,2} - \text{RPI}_{m3})$$

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

"**IFA**" means the Index Figure applicable;

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

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

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

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

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

"**IFA**" means the Index Figure applicable;

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

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

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

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

(b) **Changes in Index**:

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

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

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

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

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

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

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

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

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

(y) in the case of any Note falling due for final redemption on the date for payment, no subsequent adjustment to amounts paid will be made.

(iii) *Cessation of or fundamental changes to the Index*: If the Index ceases to be published or any changes are made to it which, in the opinion of an Expert, constitute a fundamental change in the rules governing the Index and the change would, in the opinion of the Expert, be detrimental to the interests of the Issuer or the Noteholders and if, within 30 days after its appointment (or such longer period as the Trustee may consider reasonable), the Expert recommends for the purposes of the Notes one or more adjustments to the Index or a substitute index (with or without adjustments), then provided that such adjustments or substitute index (as the case may be) are not materially detrimental (in the opinion of the Expert) either to the interests of the Issuer or the interests of the Noteholders, as compared to the interests of the Issuer and the Noteholders (as the case may be) as they would have been had the Index continued to be published or such fundamental change in the rules governing the Index not been made, the Index shall be adjusted as so recommended or (as the case may be) shall be replaced by the substitute index so recommended (as so adjusted, if so recommended) and references in these Conditions to the Index shall be construed accordingly and the Issuer shall notify the Noteholders of the adjustments to the Index or the introduction of the substitute index (with or without adjustments) in accordance with Condition 17.

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

(A) except in the case of a payment on redemption of the Notes, if the sum which would have been payable if such adjustments or such substitute index had been in effect on the due date for such provisional payment is greater or less than the amount of such provisional payment, the interest payable on the Notes on the Interest Payment Date next succeeding the last date by which the Issuer and Trustee receive such recommendation shall be increased or reduced to reflect the amount by which such provisional payment of interest fell short of, or (as the case may be) exceeded, the interest which would have been payable on the Notes if such adjustments or such substituted index had been in effect on that date; or

(B) in the case of a payment of principal or interest on redemption of the Notes, no subsequent adjustment to amounts paid will be made.

(iv) *Trustee*: The Trustee shall be entitled to assume that no cessation of or change to the Index has occurred until informed otherwise by the Issuer and will not be responsible for identifying or appointing an Expert save as provided in these Conditions.

(c) **Appointment of Expert**: At any time when under these Conditions it is necessary to have, or the Trustee requests, the appointment of an Expert, the Issuer shall take such steps as are necessary to appoint an Expert approved by the Trustee and at the expense of the Issuer.

8 PAYMENTS AND TALONS

(a) **Bearer Notes**: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 8(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 8(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes**:

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States**: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Fiscal Laws**: 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 unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured 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, unmatured 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 unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on

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

(g) **Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).

(h) **Non-Business Days**: If any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

9 TAXATION

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or 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(l)(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+/Bal, 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+/Bal 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(l)(c) of the Electricity Act, as amended by Section 30 of the Utilities Act, and from time to time, any other replacement licence or licences or exemptions granted or issued by any relevant authority or person in the United Kingdom to the Issuer which entitles the Issuer to distribute electricity in the United Kingdom or any part thereof;

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

"**Excluded Subsidiary**" means any Subsidiary of the Issuer:

(i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;

(ii) none of whose Indebtedness For Borrowed Money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than such Subsidiary or another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in paragraph (ii) of the definition of Project Finance Indebtedness; and

(iii) which has been designated as such by the Issuer by written notice to the Trustee,

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

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

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

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

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

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

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

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

"**Principal Subsidiary**" at any time shall mean:

(i) any Relevant Subsidiary; or

(ii) any Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer at least 90 per cent, in nominal amount of whose Indebtedness For Borrowed Money is Project Finance Indebtedness):

(A) whose (a) profits on ordinary activities before tax or (b) net assets represent 20 per cent., or more of the consolidated profits on ordinary activities before tax of the Issuer or, as the case may be, consolidated net assets of the Issuer, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) and the then latest audited consolidated financial statements of the Issuer provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements (consolidated in the case of a Subsidiary which itself has subsidiaries), adjusted as deemed appropriate by the Auditors after consultation with the Issuer; or

(B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall become a Principal Subsidiary under the provisions of this 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+/Bal, 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+/Bal 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 16 September 2019, SSE published a green bond framework in accordance with the 2018 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 £11.9 billion and was the 34th largest company in the FTSE 100 as at 31 August 2019. The address of SSE's registered office is Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ and the telephone number of the main switchboard at the registered office is 01738 456 724. The website of SSE is sse.com. No information on such website forms part of this Prospectus except as specifically incorporated by reference, see "Documents Incorporated by Reference".

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	Chair
Alistair Phillips-Davies	Chief Executive
Gregor Alexander	Finance Director
Martin Pibworth	Energy 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
Melanie Smith	Non-Executive Director

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

- **Richard Gillingwater CBE** is Chair of Henderson Group plc, Senior Independent Director of Whitbread plc.
- **Alistair Phillips-Davies** is a member of the Scottish Energy Advisory Board and the Accenture Global Energy Board.
- **Gregor Alexander** is Chair of Scotia Gas Networks Ltd and a non-Executive Director of Stagecoach Group plc.
- **Martin Pibworth** is a Member of Energy UK Board.
- **Crawford Gillies** is Chair of The Edrington Group Ltd and Senior Independent Director of Barclays plc.

- **Tony Cocker** is Chair of Affinity Water Ltd and Infinis Energy Management Ltd and Deputy Chair 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, Electoral Commissioner, The Electoral Commission, Governor of Erskine Stewart Melville School, and Chair of Nominations Committee for National Trust Scotland.
- **Helen Mahy CBE** is Chair of the Renewables Infrastructure Group Ltd, Deputy Chair and Senior Independent Director of Primary Health Properties PLC, a non-Executive Director of Bonheur ASA and an Equality and Human Rights Commissioner.
- **Melanie Smith** is Strategy Director of Marks and Spencer, Trustee at Beat and Advisory Board member of Manaia

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 8 May 2018, the Group's current joint venture partners in Clyde, Greencoat UK Wind Plc ("**UKW**") and GLIL Infrastructure LLP ("**GLIL**") exercised an option to purchase a further 14.9 per cent. of Clyde on 30 May 2018 for consideration of £202 million. The Group recognised an exceptional gain on sale of £74.2m on the disposal. Following the sale of this stake, the Group will retain 50.1 per cent. in Clyde, with UKW and GLIL.

Acquisition of stake in Seagreen Offshore Windfarm

On 24 September 2018, the Group acquired the remaining 50% of Seagreen Wind Energy Limited ("**Seagreen**") through its wholly owned subsidiary SSE Renewables Developments (UK) Limited for consideration of £118.0m. The Group previously held 50% of Seagreen as an equity accounted joint venture. The Group has assessed that the assets acquired do not meet the IFRS 3 "Business Combinations" criteria to be classified as a business. The 50% stake in Seagreen that the Group held prior to this transaction continues to be carried at historical cost.

Sale of stake in Cloosh Valley Wind Farm

On 28 March 2019, the Group disposed of a 25% stake in the 108MW Cloosh Valley Wind Farm, part of the 174MW Galway Wind Parkin Connemara, in County Galway, to GR Wind Farms 1 Limited ("**GRWF1**"). The stake equates to 27MW of capacity and the total consideration is €34.5m representing the equity value of the transaction (excluding the external debt finance).

Prior to the sale, both companies had a 50% stake in Cloosh Valley Wind Farm. This transaction now takes GRWF1 ownership of the generation site to 75% per cent. SSE will continue to operate the wind farm and its retail arm in Ireland, SSE Airtricity, will continue to have the offtake of the green energy generated at the site.

The 174MW Galway Wind Park entered commercial operation in September 2017 and comprises 58 turbines in total, making it Ireland's largest wind farm. Developed in two phases, Phase 1 (66MW) is fully-owned by SSE while the Phase 2 Cloosh Valley Wind Farm (108MW), which is the subject of this transaction, is co-owned by SSE and GRWF1. With the completion of this sale, SSE will own 93MW of the installed capacity at Galway Wind Park, representing a 53% ownership share of the total site.

Sale of stake in SSE Telecommunications

On 29 March 2019, the Group disposed of a 50.0% equity stake in its wholly owned subsidiary, SSE Telecommunications Limited ("**SSE Telecoms**"), to Infracapital Partners III ("**Infracapital**") for initial consideration of £215.0m. Under the terms of the sale agreement, SSE has the ability to earn a further £85m in deferred consideration based on SSE Telecoms achieving certain business objectives and a further £80m in contingent consideration to be paid in a series of instalments in the five-year period to 2024, based on financial targets for out-performance. Total consideration has been initially assessed at £230.5m, reflecting the span of contingent payments. The Group has assessed that it lost control of SSE Telecoms as a result of the transaction and the 50.0% equity stake retained will be accounted for as an equity accounted joint venture under the principles of IFRS 11 "Joint Arrangements". The Group has acquired the joint venture investment at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £235.4m, including fair value gain on acquisition of the joint venture investment of £119.3m.

Sale of stake in Stronelairg & Dunmaglass windfarms

On 31 March 2019, the Group disposed of a 49.9% equity stake in its wholly owned subsidiaries, Stronelairg Windfarm Limited ("**Stronelairg**") and Dunmaglass Windfarm Limited ("**Dunmaglass**"), to UKW for total consideration of £635.0m. The Group has assessed that it lost control of Stronelairg and Dunmaglass on that date, and the 50.1% interest retained in the entities will be accounted for as equity accounted investments in joint ventures under the principles of IFRS 11 "Joint Arrangements". The Group acquired the joint venture investments at fair value under the principles of IFRS 3 "Business Combinations", resulting in a total gain of £733.0m, including fair value gain on acquisition of the joint venture investments of £369.2m.

SSE Energy Services transaction

SSE Energy Services, comprising SSE's domestic energy supply and energy-related services businesses in Great Britain, is the third-largest supplier in the GB energy market. Since it stepped away from a planned merger with npower in December 2018, SSE had been actively progressing a range of options for the future of SSE Energy Services, including a possible sale, alternative transaction or standalone listing. In these considerations, the interests of customers, employees and shareholders have been paramount. On 13 September 2019, SSE entered into an agreement to sell its SSE Energy Services business to OVO Energy Limited, a wholly owned subsidiary of OVO Group Limited, at an enterprise value of £500 million comprising £400 million in cash and £100 million in loan notes. Completion of the transaction is expected in late 2019 or early 2020 and is subject to the satisfaction of certain conditions including FCA and Competition and Markets Authority ("**CMA**") approvals. The transaction agreement has a longstop date of 31 May 2020.

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 address of SHEPD's registered office is Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ and the telephone number of the main switchboard at the registered office is 0800 048 3516. The website of SHEPD is https://www.ssen.co.uk/home/. No information on such website forms part of this Prospectus except as specifically incorporated by reference, see "Documents Incorporated by Reference".

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 780,000 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 *"— Board of Directors of SSE*" above)
Robert McDonald	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
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. The address of SHE Transmission's registered office is Inveralmond House, 200 Dunkeld Road, Perth PH1 3AQ and the telephone number of the main switchboard at the registered office is 0800 048 3516. The website of SHE Transmission is https://www.ssen.co.uk/home/. No information on such website forms part of this Prospectus except as specifically incorporated by reference, see "Documents Incorporated by Reference".

SHE Transmission is responsible for maintaining and investing in the transmission network in its area, which comprises around 5,320km 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 network capacity for those seeking to generate electricity from renewable and other sources.

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, see 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 "— *Board of Directors of SSE*" above)

Name	Title	Significant Outside Activities
Robert McDonald	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
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 address of SEPD's registered office is 55 Vastern Road, Reading, Berkshire RG1 8BU and the telephone number of the main switchboard at the registered office is 0800 048 3516. The website of SEPD is https://www.ssen.co.uk/home/. No information on such website forms part of this Prospectus except as specifically incorporated by reference, see "Documents Incorporated by Reference".

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 3.1 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 DSO role.

Board of Directors of SEPD

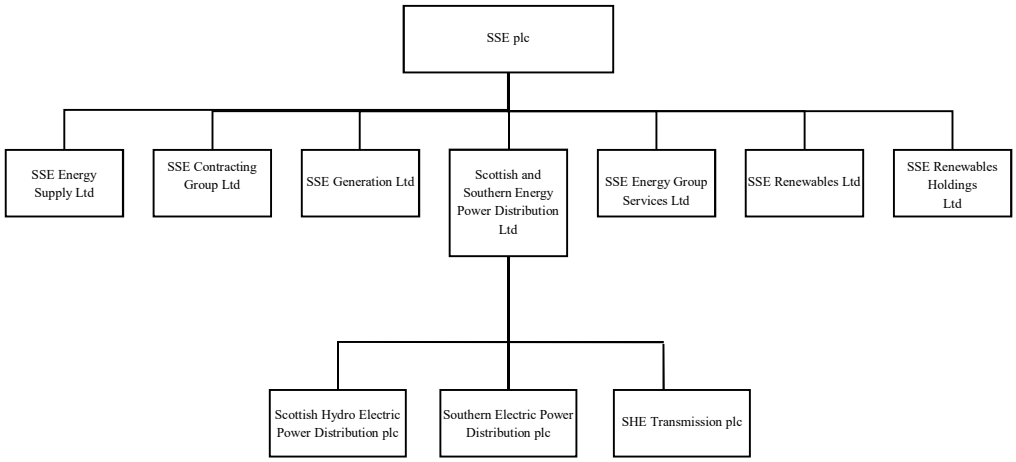
As at the date of this Prospectus, the members of the Board of Directors of SEPD, all of 55 Vastern Road, Reading RG1 8BU, UK are as follows:

Name	Title	Significant Outside Activities
Gregor Alexander	Director	(See *"— Board of Directors of SSE*" above)
Robert McDonald	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
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 SEPD and his/her private interests and/or other duties.

The SSE Group

SSE Group — Principal Subsidiaries as at 31 July 2019



SSE has operations and investments across the UK and Ireland and is involved in the generation, transmission, distribution and supply of electricity, the production, storage, distribution and supply of gas and in the provision of

energy-related services. It is a developer (which includes being a builder), an operator and an owner of energy assets and businesses.

SSE delivers energy safely to homes and businesses in GB through its Scottish and Southern Electricity Networks ("**SSEN**") businesses. It owns and operates electricity distribution networks in the North of Scotland and central southern England, and the electricity transmission network in the North of Scotland. SSE also has a one third stake in the gas distribution company, SGN. These businesses distribute energy to homes and workplaces in Scotland and the south of England and are subject to regulatory controls set by OFGEM.

SSE creates value by sourcing and producing energy. It is a leading generator of electricity from renewable sources in the UK and Ireland under the banner of SSE Renewables. Its interests in renewable energy are complemented by ownership and operation of flexible thermal power stations. It owns and operates gas storage facilities in the UK, operates an energy portfolio management division and invests in gas production in the North Sea and west of Shetland. These wholesale businesses contribute significantly to electricity and gas systems of the UK and Ireland.

SSE supplies energy and provides infrastructure services to business and public sector customers through its Business Energy and Enterprise divisions. It also supplies energy and related services to household customers on the island of Ireland through SSE Airtricity. Business Energy and Enterprise work closely with customers to meet their specific requirements in innovative and sustainable ways. SSE Airtricity provides a range of related services to customers, including green energy. SSE supplies energy and other services to the GB household market through SSE Energy Services. In December 2018 the decision was taken not to proceed with a proposal to create a new independent company through the merger of SSE Energy Services with another energy supplier. However, on 13 September 2019, SSE entered into an agreement to sell its SSE Energy Services business to OVO Energy Limited, a wholly owned subsidiary of OVO Group Limited, at an enterprise value of £500 million comprising £400 million in cash and £100 million in loan notes. Completion of the transaction is expected in late 2019 or early 2020 and is subject to the satisfaction of certain conditions including FCA and CMA approvals. The transaction agreement has a longstop date of 31 May 2020.

SSE's core, low-carbon businesses are the engine rooms of its strategic delivery. Earnings derived from renewable sources of energy and regulated energy networks account for the majority of Group operating profit, and it is these businesses that are best placed to seize the opportunities presented by decarbonisation and electrification. Changes to SSE's business structure implemented from 1 April 2019 have created strong focus for individual business units and clear visibility of value. In particular, SSE is consolidating the development and operation of all its renewable energy assets under single management in a business to be known as SSE Renewables. This new model also gives greater focus to the specific requirements of SSE's Distribution and Transmission networks businesses, which are vital low-carbon enablers. These low-carbon renewables and networks businesses are supported by thermal generation plants that provide vital flexibility complementing the variability of renewables output during the low-carbon transition, and retail operations that provide key energy services for customers and secure valuable routes to market for SSE's generation fleet.

At the very heart of SSE's strategy is a commitment to developing, operating and owning the assets that create lasting value and are vital to the low-carbon transition. It has world-class assets, a coveted pipeline of opportunities, and skills and sector experience in project development, procurement, construction management, operations, customer service and finance that enhance value for both shareholders and society. An increased investment appetite for low-carbon electricity assets presents opportunities to form new financial partnerships and create value from successful development and operation of assets. This fits with a strategy of developing and operating, but not always wholly owning assets. Timely capital recycling will continue to be an important feature to realise value from development while retaining key stakes so SSE can add value from operations and retain options for future growth. Growth could also come from areas beyond SSE's home markets in Great Britain and the island of Ireland, where new or adapted technologies might provide opportunities for growth subject to SSE's strict capital discipline.

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 £830.2 million for the financial year ended 31 March 2019, which was 73 per cent. of the Group's adjusted operating profit. SSE estimates that the total RAV of its economically-regulated 'natural monopoly' business was £8,729 million as at 31 March 2019, up £425 million from £8,304 million at 31 March 2018. As at 31 March 2019, the RAV comprised around: (i) £3,276 million for electricity transmission; (ii) £3,555 million for electricity distribution; and (iii) £1,898 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 2018 which comprised around: (i) £3,070 million for electricity transmission; (ii) £3,406 million for electricity distribution; and (iii) £1,828 million for gas distribution. SSE's energy networks businesses is on course to reach £10 billion by 2023.

OFGEM sets price controls (which in the future will be five year price controls) under the RIIO (Revenue = Incentives + Innovation + Outputs) framework through which energy network companies earn index-linked revenue through charges levied on customers set at a level to cover costs and earn a reasonable return, subject to delivering value for customers, being efficient and achieving targets set by OFGEM.

As part of setting price controls, OFGEM defines total expenditure ("**Totex**") allowances for each of the economically-regulated networks, which is designed to encourage them to deliver their outputs at the lowest total cost, without preferring operational expenditure or capital expenditure. Totex underspends are shared between the companies and their customers. OFGEM also uses the price control process to incentivise companies to deliver defined outputs for customers. If companies deliver, they can earn additional incentive income; if not, they will suffer a financial penalty.

Electricity Transmission

SSEN, operating under licence as Scottish Hydro Electric Transmission plc, owns, operates and develops the high voltage electricity transmission system in the north of Scotland and remote islands.

Since the start of the eight-year RIIO-T1 Price Control in 2013, capital investment in Transmission has totalled around £2.7bn, with this investment playing a pivotal role in providing the critical national infrastructure required to facilitate the transition to a decarbonised energy system. In addition to the base rate of return on the RAV of SSEN's transmission assets, RIIO-T1 allows additional revenue to be earned through financial incentives based on efficient use of Totex.

The outcome of Totex efficiency savings is dependent on the successful completion of large-scale projects and the successful close out of RIIO-T1 after 2021. SSEN expects it will deliver Totex savings over the course of RIIO-T1 which will be shared equally between SSEN, supporting future earnings, and electricity customers, through lower charges than would otherwise have been the case.

Despite the current period of rapid growth in transmission development, SSEN continues to maintain a reliability of over 99.9%. During 2018/19, SSEN earned the maximum reward of £1.2m through the Energy Not Supplied ("**ENS**") Incentive. The ENS Incentive provides a financial reward, on a sliding scale, if the volume of energy not supplied to customers due to faults is below a pre-determined annual target, which for SSEN Transmission is 120MW. If the target is exceeded, a financial penalty is applied.

As its transmission assets reach the end of their operational life, SSEN has an ongoing programme of maintenance and refurbishment to ensure its critical, national infrastructure assets continue to deliver for electricity customers, generators and wider society.

In December 2018, SSEN successfully energised the Caithness-Moray subsea transmission link, which remains the largest single investment ever undertaken by the SSE Group. Total spend for the project is forecast to be around £970m against an allowance of £1,062m, net of £55m of allowance already returned through the Price Control (all in 2013/14 prices). SSEN's efficient delivery of the Caithness-Moray link will result in efficiency savings through the Totex mechanism, supporting future earnings.

During 2018/19, SSEN increased the renewables capacity supported by its network by over 1GW, in what was another record year for renewable connections to SSEN's transmission network. This means the installed renewable electricity generation capacity connected to SSEN's transmission network has grown from 3.3GW at the start of the RIIO-ET1 price control in April 2013 to over 6GW and is forecast to grow to over 6.5GW by the end of the current price control period in 2021. SSEN will continue to work collaboratively with its connection customers to deliver timely and efficient connections to its network.

In the remaining years of the RIIO-T1 Price Control, SSEN has a healthy pipeline of transmission projects. With a total planned investment of over £600m, the transmission business remains on track to increase its RAV to around £3.6bn by 2021.

SSEN continues to work with stakeholders across the three Scottish island groups to take forward proposals to provide transmission connections to enable the connection of renewable electricity generation. Together, the three links could provide an investment opportunity of around £1.5bn for SSEN. With all three island link Needs Cases with OFGEM for consideration and the project development for each island link at an advanced stage, SSEN will continue to engage constructively to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed.

SSEN continues to have a number of significant concerns about OFGEM's implementation of competition in transmission, particularly the Competition Proxy Model ("**CPM**") and Special Purpose Vehicle ("**SPV**") delivery models currently in development.

SSEN believes OFGEM's current proposals effectively reopen the RIIO-T1 Price Control; are justified on unproven customer benefits; are not underpinned by legislation or a regulatory framework; and risk delays to the delivery of well-established and advanced projects. SSEN is also increasingly concerned that the introduction of competition in the way envisaged will result in a fragmentation of responsibility, risking network reliability and introducing safety concerns.

Whilst SSEN will continue to engage constructively with OFGEM and other stakeholders as part of this process, it will also consider all options available to ensure the integrity of the Price Control is maintained and the development of existing projects continues, including the potential for legal challenge.

In December, OFGEM published its RIIO2 Sector Specific Methodology consultation for electricity transmission.

SSEN remains concerned that OFGEM has failed to give appropriate weight to benefits delivered to customers and stakeholders during RIIO1 and has instead proposed a RIIO-2 framework which blunts existing efficiency incentives in a desire to secure a predictable outcome. In its response to the consultation, SSEN has set out a number of areas the regulatory mechanisms of RIIO-1 which have delivered material stakeholder benefits, encouraging OFGEM to ensure these remain in place. These mechanisms are:

- an output incentive package large enough to allow a high performing network to reach the upper return range;
- a strong Totex incentive, to ensure networks continue to drive efficiency;
- a strong and equitable business plan incentive that allows networks to reveal potential in the knowledge that they will share in the benefits;
- an innovation stimulus which supports solutions to current as well as future network challenges; and

- a fair financial package for investors that recognises current and future risk.

SSEN will continue to advocate constructively for a regulatory framework that strikes the right balance between driving efficiency and maintaining a stable investment climate that continues to deliver improvements in network reliability, innovation and customer service and pave the way for the further decarbonisation of the energy system.

SSEN's draft RIIO-T2 business plan, which will inform business delivery from April 2021, is now in the final stages of development. In February 2019, informed by extensive stakeholder engagement over the previous 18 months, SSEN published its 'Emerging Thinking' paper which sets out SSEN's understanding of what electricity customers, local communities and wider stakeholders require from the electricity transmission network in the first half of the next decade.

The 'Emerging Thinking' paper and subsequent stakeholder feedback will form the basis of SSEN's first draft business plan, which was published for consultation on 27 June 2019. As part of the development of this business plan, SSEN sees a powerful case for investment which could contribute to a Transmission RAV of around £5bn by the end of RIIO-T2 in 2026, excluding any contribution from island links.

Electricity Distribution

SSEN is responsible for maintaining electricity distribution networks that supply over 3.8 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 2019 was 38.3TWh, compared with 39.2TWh in the previous year. Capital expenditure in electricity distribution networks was £340.7 million in the year to 31 March 2019, compared to £326.1 million in the previous year.

SSEN is now at the mid-point of the RIIO-ED1 price control and has delivered significant changes to its operations, processes and standards to ensure the needs of its customers remain at the forefront of decision making. It aims to be as efficient and effective as possible and earn returns that are fair to customers and shareholders alike, focusing on four key areas:

- good performance in relation to incentives available with RIIO-ED1;
- efficient delivery of capital investment;
- focused delivery of regulatory outputs; and
- maintaining a leadership position in innovation.

Incentive performance for SSEN's Distribution business is expected to be £11m in 2018/19 (including an estimated £1m for Stakeholder Engagement and Consumer Vulnerability), compared to £12.6m in 2017/18, with a reduction in the return from the Interruptions Incentive Scheme (IIS) offsetting marked improvements in connections and customer service incentive performance. Typically, incentive income is collected two years after the performance year.

Under the IIS, 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.

After a challenging first six months of the year, due in part to the sustained summer heatwave impacting on low voltage network equipment, an improved performance in the second half of the year helped deliver an incentive reward for 2018/19 of £2.5m (£6.8m last year).

In 2018/19, SSEN's focus on continual improvements in customer service resulted in a total incentive reward of £4.7m against the Customer Satisfaction (or Broad) Measure Incentive, up significantly from £2.7m last year. SSEN's commitment to customer service is reflected in its membership of the Institute of Customer Service and performance in UKCSI survey, where it achieved a score of 89.4%, comparing favourably to the member average

of 78.1% and the Utilities average of 74.4%. SSEN also achieved compliance with the BSI Inclusive Service Provision standard for the fourth year running, recognising that its policies, procedures and services are accessible and fair to all customers.

Under the Stakeholder Engagement and Consumer Vulnerability Incentive, SSEN was awarded £1.2m for 2017/18, up from £0.8m in 2016/17. The outcome of the SECV incentive for 2018/19 will not be known until the second half of 2018.

In recent years, SSEN has made significant changes and process improvements in its connections business, informed by the needs and expectations of its customers. This progress is reflected by a near-maximum award of £2.8m under the Average Time to Connect (TTC) Incentive for 2018/19, up from £1.8m the previous year.

In October 2018, OFGEM announced its decision not to penalise SSEN under the penalty only Incentive on Connections Engagement (ICE). This is the third consecutive year SSEN has avoided a penalty since its introduction at the beginning of the RIIO-ED1 Price Control period. In line with the RIIO-ED1 regulatory settlement, incentive targets will become harder to achieve in the second half of the price control, but SSEN remains confident that it will deliver sustained incentive performance in this area.

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

During 2018/19, SSEN invested a total of £340.7m in its electricity distribution networks, bringing the total invested since the beginning of the RIIO-ED1 Price Control to over £1.2bn – which is part of a forecast investment of £2.4bn throughout the RIIO-ED1 period, supporting future earnings through RAV growth.

Following a change in Scottish Marine Planning policy, the costs associated with the ongoing maintenance and replacement of SSEN's subsea cable assets have increased and SSEN submitted a 'reopener' to OFGEM for the additional allowance required to support its subsea cable replacement programme.

SSEN has requested an additional £59m (in 2012/13 prices) over the RIIO-ED1 period to manage the increased associated costs. These include the requirements for additional surveys, cable protection and decommissioning. 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.

In November 2018, SSEN submitted to OFGEM a 'whole system' recommendation for Shetland's future energy needs through the sharing of, and financial contribution towards, the proposed transmission link to Shetland. SSEN has proposed making a financial contribution of £251m towards the transmission link, which is based on the value of services the link would provide to its local distribution network. A formal response from OFGEM to SSEN's proposal is expected shortly.

SSEN is playing a leading role in the transition from a Distribution Network Operator to a DSO. In December 2018, SSEN adopted a 'Flexibility First Commitment' setting out that SSEN Distribution will consider flexible solutions in all scenarios where traditional network reinforcement may have been required. This commitment, which is now hard-coded into SSEN's connection process, has been supported by a partnering with Piclo, a flexibility platform provider, to seek to register and procure flexibility across its distribution areas, ahead of potential network constraints.

In March 2019 it was confirmed that SSEN's Project Local Energy Oxfordshire ("**LEO**") will receive £13.8m of funding from the UK Government's Industrial Strategy Challenge fund. LEO will explore how the growth in local renewables, electric vehicles, battery storage, vehicle-to-grid technology and demand side response can be supported by a local, flexible, and responsive electricity grid. Project LEO will run concurrently with Project TRANSITION, funded by £11m OFGEM grant, which will replicate and trial one of the elements of one of the proposed DSO models.

SSEN expects electrification of heat and transport to lead to an increased role for the electricity networks. As well as playing a key role in developing its networks to support an increased load in the future, SSEN's Electric Vehicle Strategy is built on a proactive 'readiness' approach with informed anticipative investment where the evidence, network characteristics and stakeholder engagement show it is required. This focus on enabling electric vehicles is in line with the goals for 2030 adopted by SSE in March 2019. In early 2019, SSEN worked with leading energy consultants, Regen, to develop scenarios for the growth of new sources of demand and distributed generation in its licence area in central southern England for 2018 to 2032 and plans to replicate this study in its Scottish licence area later this year.

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. SGN's vision is to keep its customers safe and warm while at the same time lead the way in energy delivery. Safety therefore will remain a key priority for the company with a focus on keeping its people, customers and the public safe around its activities.

SGN had a good year across its operational activities, exceeding its 97% emergency response target and achieving its GB gas mains replacement targets, with 999km delivered across the Scotland and south networks. During the year a further 200km of pipeline was constructed on SGN's third distribution network in the west of Northern Ireland. SGN is also greatly improving support for people in vulnerable circumstances, providing new gas connections to over 2,900 customers in fuel poverty.

With two years left of the current eight-year price control (RIIO-GD1), SGN remains committed to meeting all OFGEM outputs as well as ensuring it maximises its regulatory incentives. Consultation is now on developing its business plan for the next five-year price control (RIIO-GD2), which will take effect from April 2021.

Retail

SSE's retail businesses offer a route to market for energy and related infrastructure services. Business Energy supplies energy in commercial and public sector markets; SSE Airtricity remains the only domestic energy supplier in all markets across the island of Ireland; and Enterprise has an important part to play in helping SSE's meet its low-carbon ambitions.

SSE Business Energy

SSE Business Energy supplies energy to business and public sector customers throughout Great Britain, to a market which consumes a total of around 180TWh of electricity and 8 billion therms of gas annually. It complements SSE's interests in renewables and flexible thermal generation, providing a route to markets for electricity output through standard contracts and power purchase agreements.

SSE Business Energy performed well against expectations for all segments. Its strong position is built on solid core competencies in meeting business customers' energy needs. SSE Business Energy continues to focus on its 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.

SSE Enterprise

The role of Enterprise within SSE Group is to seek out new opportunities in areas that complement the Group's core energy portfolio and 2018/19 represented a year of growth. SSE Enterprise focuses on distributed energy, telecoms and also undertakes M&E Contracting work in both its contracting and rail businesses.

Enterprise continues to develop in core markets as well as seek out opportunities to meet the evolving needs of its customers. This year it brought together its existing multi-utility and energy management capabilities into one Distributed Energy business division. Technological advances in flexible energy generation and storage, energy consumption, digital platforms and energy management are creating a growing need for local and flexible energy services. To meet that need, this new division will develop further its capability to provide such services as electric vehicle infrastructure, intelligent energy and information monitoring; as well as district heating schemes.

December 2018 saw Infracapital enter into an agreement with SSE plc to buy a 50% stake in SSE Enterprise Telecoms for a total consideration of up to £380m. An initial £215m (less a small adjustment for working capital) was received at completion in March 2019 and a further £165m will be paid in a series of instalments – subject to future performance. The deal supports accelerated growth in the fibre connectivity sector for the company which will be governed by a composite board structure. High-speed broadband connectivity remains vital to the economic prosperity of the UK – and SSE Enterprise Telecoms is well placed to support growth in this critical sector. In order to further consolidate the spread of its portfolio of Enterprise businesses, SSE completed the sale of its share of its gas transportation networks, Indigo Pipelines to Arjun Infrastructure Partners; and announced the sale of its Water business to Leep NAV Networks – a joint venture between Ancala and the Peel Group, which completed at the end of May 2019.

SSE Airtricity

SSE's retail arm in Ireland, SSE Airtricity, is the only retail energy brand that operates in all market areas across the island. Combining power production and energy supply to households and businesses continues to deliver commercial advantage to energy customers in Ireland. This has been recently demonstrated by 'Generation Green', a consumer brand campaign that combines SSE Airtricity's leadership in renewable energy with a customer proposition based on helping customers decarbonise.

At 31 March 2019, SSE Airtricity supplied electricity and natural gas to 0.7 million household and business customer accounts in the Republic of Ireland and Northern Ireland, making it the second-largest provider of energy and related services in the combined market.

In Home Energy the launch of new value-based propositions, including a 'connected home' product partnership with Amazon, boosted sales, rising to one-third of all sales by year end. For the third year running SSE Airtricity was also named Best for Customer Service by internet comparison site Bonkers.ie, and overall Best Consumer Brand.

In February 2019, the Commission for the Regulation of Utilities confirmed that SSE Airtricity is now the largest supplier by MWh of electricity to commercial customers in Ireland's 'Large Energy User' market, becoming the first supplier to overtake the incumbent in this market.

SSE Airtricity continues to focus on helping customers reduce their carbon output and save on energy costs, and this year completed a number of acquisitions and collaborations with specialist energy ancillary service providers to expand in this sector.

SSE Energy Services (will be disposed of in a transaction entered into with OVO Energy Limited)

SSE Energy Services, comprising SSE's domestic energy supply and energy-related services businesses in Great Britain, is the third-largest supplier in the GB energy market. Since it stepped away from a planned merger with npower in December 2018, SSE had been actively progressing a range of options for the future of SSE Energy Services, including a possible sale, alternative transaction or standalone listing. In these considerations, the interests of customers, employees and shareholders have been paramount.

On 13 September 2019, SSE entered into an agreement to sell its SSE Energy Services business to OVO Energy Limited, a wholly owned subsidiary of OVO Group Limited, at an enterprise value of £500 million comprising £400 million in cash and £100 million in loan notes. Completion of the transaction is expected in late 2019 or early 2020 and is subject to the satisfaction of certain conditions including FCA and CMA approvals. The transaction agreement has a longstop date of 31 May 2020. In 2018/19 SSE continued to perform strongly in a range of external service league tables. It was named best large supplier in the uSwitch Customer Satisfaction Awards and was consistently highly ranked in the Citizens Advice Energy Supplier Performance report, most recently outperforming large and small competitors alike to rank second of 34 suppliers assessed. As a responsible essential services provider, SSE is also committed to meeting the needs of vulnerable customers and in May 2018 achieved the British Standard for Inclusive Service Provision, the gold standard for any company looking to embed flexible

customer service practices and means SSE can identify vulnerability in different forms and adapt its service accordingly.

As of 31 March 2019, SSE Energy Services had 5.78m gas and electricity customer accounts and 0.47m energy related services customer accounts. Throughout the year, a number of strategic partnerships were secured with trusted brands including Dixons Carphone Warehouse and Leaders Romans Group, which are helping to reach and attract new customers. Non-energy performance was also strong with the number of sales of phone and broadband packages doubling in 2018/19.

Despite the high levels of competition seen in the market, there are early indications that the market is beginning to consolidate. In part, this is due to an increase in non-cost reflective tariffs and unsustainable business models operating in the GB energy market. During 2018/19, 12 suppliers ceased trading, activating OFGEM's 'Supplier of Last Resort' process. SSE Energy Services was pleased to be appointed by OFGEM as the new energy supplier for Brilliant Energy's 28,000 customer accounts.

While there were many achievements in 2018, including meeting its OFGEM interim milestone target for electric, SSE Energy Services was disappointed to have fallen slightly short on meeting its interim milestone target for gas. SSE Energy Services worked with OFGEM to resolve this matter as quickly as possible and a payment of £700,000 was made to OFGEM's Voluntary Redress Fund in March 2019. The shortfall was quickly recovered during February 2019 and good progress is being made against the 2019 plan. Despite ongoing challenges associated with the availability of key enabling technology and low customer demand, the business remains committed on meeting its obligation in a way which is safe, cost-effective and maximises the benefits to customers.

Wholesale

SSE's Wholesale businesses are involved in Electricity Generation (from renewable and thermal sources), Gas Storage, Gas Production and Energy Portfolio Management. They operate in the UK and Ireland.

Renewable Energy (to become known as SSE Renewables)

Renewable energy is one of the primary routes for achieving decarbonisation in the UK, Ireland and further afield. Correspondingly, renewables are a core business area for SSE and a key part of its future growth plans. Further decarbonisation of electricity, heat and transport – on the scale envisaged by the UK Committee on Climate Change's May 2019 report, will all lead to further opportunities.

In November 2018, SSE announced its plans to consolidate its renewable energy assets in the UK and Ireland under the banner of a new business to be known as SSE Renewables. The new business is led by Managing Director, Jim Smith, and is bringing together SSE's existing operational assets and those under development and construction in onshore wind, offshore wind, flexible hydro electricity, run-of-river hydro electricity and pumped storage.

Output from renewable sources, including pumped storage, increased in 2018/19 compared to the previous year (9.8TWh compared with 9.4TWh) which is mainly driven by an increase in average generation capacity during the year as Stronelairg and Beatrice began to generate. Net capacity at 31 March 2019 reflects the value creating divestments at Clyde, Stronelairg, Dunmaglass and Cloosh. SSE's overall renewable capacity increased to 4,002MW in May 2019 with the delivery of the Beatrice offshore windfarm.

Stronelairg (228MW), SSE's last wind farm to be accredited under the Renewables Obligation, was completed in December 2018. In March 2019, stakes in Stronelairg and Dunmaglass, totalling 161MW secured an average sale price of just under £4m/MW, demonstrating the value that can be created through the development of high-quality assets.

In March 2019, SSE also sold 27MW of the Cloosh Valley Wind Farm part of the Galway Wind Park, Ireland's largest wind farm, taking its share of the overall site to 93MW.

SSE Renewables will continue to operate the three wind farms and to offtake the power. These divestments were part of SSE's strategy to create value from development and operation, as well as ownership, of assets. Like other leading energy companies, SSE is likely to continue to operate in this way, effectively continuing to seek a developer and operator premium, whilst acknowledging the increased appetite that potential financial partners have for working with leading developers and operators like SSE.

SSE's onshore wind farm development pipeline consists of over 1GW of potential new build projects. This includes around 475MW of capacity with consent for development, some of which SSE is seeking to optimise through planning amendments to accommodate more advanced turbine technology. The current focus is on the joint venture Viking Wind Farm (up to 457MW – SSE share 50%), located on Shetland, Strathy South (133MW), Gordonbush Extension (38MW), Tangy re-power (up to 49MW), and on others requiring consent, such as Doraville (139MW) in Northern Ireland.

SSE continues to take forward development options for new onshore wind farms and extensions to existing wind farms and is well placed to take advantage of any future opportunities as they emerge. This includes exploring merchant opportunities for onshore wind and considering corporate power purchase agreements to deliver additional renewables.

The Beatrice offshore wind farm (588MW – SSE share 40%) was completed in May. Phase 1 CfD payments started on 6 November 2018 and Phase 2 on 28 April 2019. SSE Renewables will operate and maintain the entire asset on behalf of the Joint Venture, Beatrice Offshore Windfarm Ltd, once complete.

CfD Allocation Round 3 (AR3) will commence on 29 May 2019. The Department for Business, Energy and Industrial Strategy has confirmed the overall budget available, the administrative strike prices for each eligible technology, and the 'references prices' (a measure of the average GB market price for electricity used to calculate the budgetary impact of each bid during an allocation round).

SSE Renewables is actively involved in two offshore prospects which are expected to be eligible to enter AR3. (Viking Wind Farm will also be eligible to complete in AR3 as 'remote island wind'.)

- Seagreen Phase 1 (up to 1,050MW), consists of the Alpha and Bravo projects. Seagreen is wholly owned by SSE following its acquisition of Fluor Ltd.'s 50% share of the joint venture in September 2018; and
- Dogger Bank (up to 3.6GW), is a 50:50 joint venture with Equinor to develop three projects in the Dogger Bank zone – Creyke Beck A, Creyke Beck B and Teesside A. The projects are being progressed in preparation for the CfD auction.

SSE Renewables also has interests in the following further offshore projects in development:

- Seagreen Phases 2 and 3 (up to 3,200MW);
- Greater Gabbard Extension (up to 504MW – SSE share 50%); and
- Arklow Bank Wind Park in Ireland (800MW).

This means that, overall, SSE has an on- and offshore wind development pipeline of over 8GW at varying stages of development.

SSE continues to engage with the Crown Estate and Crown Estate Scotland on their leasing processes for new seabed to maintain a pipeline of offshore projects through to the late 2020s and beyond.

Arklow Bank Wind Park has a lease but is awaiting details regarding the auction processes in Ireland where the new Renewable Electricity Support Scheme ("**RESS**") is awaiting State Aid approval. SSE believes offshore wind has real opportunities from the second RESS auction, indicatively scheduled for 2020, with further auctions signalled for 2021, 2023, and 2025.

SSE's fleet of hydro electric assets continues to deliver low-carbon power to respond to the needs of the GB electricity system. The focus continues to be on ensuring the fleet is as operationally efficient and flexible as possible. Whilst SSE has some development assets, in the form of pumped storage, there is not yet a clear route forward for commercially realising the system value that these assets could provide.

Extending SSE Renewables core competencies in renewable energy to other technologies and geographies presents significant potential to add to future growth opportunities. SSE is actively exploring opportunities and assessing whether the right risk/reward balance can be achieved. With a wealth of opportunities to pursue in the UK and Ireland, SSE will take time to evaluate all opportunities carefully, and strict capital discipline will be a feature of any decisions.

Flexible Thermal Generation

SSE's thermal fleet fulfils an important function within the wider electricity market by providing reliable capacity at scale in response to market changes and events, for example, unplanned nuclear outages and periods of low rain or wind.

SSE's CCGTs are among the most flexible on the GB and Irish electricity systems and have increasingly created value from their intra-day flexibility. This flexibility is important in supporting the transition to a low-carbon electricity system.

The UK Capacity Market is currently suspended pending the outcome of a European Commission investigation into the legality of the Capacity Market payments under state aid rules. During this standstill, participants with Capacity Market obligations cannot receive payments, nor will there be mandatory collection of payments from suppliers. If the European Commission reaches a positive decision on state aid, the payments will be reinstated and paid retrospectively provided capacity obligations have been met. Capacity Market obligations for future delivery years would also be upheld.

The Government intends to run a T-3 auction in early 2020 to replace the T-4 auction originally scheduled for February 2019. The Government plans to run this auction alongside the routine T-1 and T-4 auctions. Payments for agreements secured during these auctions will be dependent upon the scheme being reapproved under State aid rules.

SSE has submitted evidence to the European Commission supporting the UK Government's position that the Capacity Market, as designed, continues to be the best tool to ensure security of electricity supply at lowest cost to the customer.

SSE's thermal assets have been awarded the following capacity contracts in the GB and Ireland through competitive auctions:

Station	Asset type	Capacity	Capacity obligation
Medway (GB)	CCGT	735MW SSE 100%	To September 2022
Keadby (GB)	CCGT	755MW SSE 100%	To September 2022
Peterhead (GB)	CCGT	1,180MW SSE 100%	October 2018 to September 2019 October 2021 to September 2022
Seabank (GB)	CCGT	1,164MW SSE 50%	To September 2022
Marchwood (GB)	CCGT	840MW SSE 50%	To September 2022
Great Island (Ire)	CCGT	464MW SSE 100%	To September 2020 October 2022 to September 2023
Rhode (Ire)	Gas/oil peaker	104MW SSE 100%	To September 2020 October 2022 to

			September 2023
Tawnaghmore peaking plant Ire)	Gas/oil peaker	104MW SSE 100%	To September 2020 October 2022 to September 2023
Tarbert (Ire)	Oil	590MW SSE 100%	To September 2020

In March 2019, SSE announced the closure of Unit 1 (495MW) at what is now its only coal-fired power station at Fiddler's Ferry (now 1510MW). The remaining three units have capacity obligations until September 2019 and continue to operate as normal. The UK Government has committed to phasing out coal-fired power stations by 2025. SSE continues to review all commercial options for the station with no decision yet made. Preparation for the safe demolition of the Ferrybridge 'C' coal-fired power station is also under way.

Construction of Ferrybridge Multifuel 2 (69MW – SSE share 50%) is on track for completion by the end of 2019. SSE is also carrying out site preparation work for a potential new multifuel plant (up to 50MW) at Slough.

Construction of SSE's £350m, 840MW CCGT at Keadby 2 in Lincolnshire, is under way and is expected to be delivered by early 2022. The project, which is adjacent to the existing Keadby CCGT, will introduce Siemens' first-of-a-kind, high efficiency, gas-fired generation technology to the UK. SSE intends to participate in future capacity market auctions to secure an agreement for Keadby 2.

Should market conditions warrant further investment in high efficiency gas-fired generation during the transition to a low-carbon electricity system, SSE has opportunities to develop further CCGTs and there is also considerable value in the optionality of the existing sites at Ferrybridge and Fiddler's Ferry. SSE also remains very interested in the long-term potential of Carbon Capture and Storage.

Energy Portfolio Management

In November, SSE published a statement on its approach to hedging with a view to providing enhanced clarity and transparency to shareholders and investors. EPM has made significant progress regarding the new hedging approach. SSE now generally seeks to hedge its exposure at least 12 months in advance of delivery and remains on track to have this approach fully in place from the start of the next financial year. The Board-level Energy Markets Risk Committee, chaired by Tony Cocker, is overseeing implementation of the new approach. For more information see SSE's updated statement published on sse.com – SSE's Approach to Hedging: May 2019 Update.

Gas Production

SSE has a diverse equity share in over 15 producing fields across 25 licences in three regions of the UK Continental Shelf: the Easington Catchment Area, the Bacton Area and Greater Laggan Area.

The Glendronach gas discovery last year was clearly a positive development and SSE is working with its partners to extract full value from the discovery. In terms of the future of the business, in November 2018, SSE stated that Gas Production is a non-core activity that is ultimately inconsistent with its focus on decarbonisation and it is taking active steps to prepare for its disposal of investments in this activity. However, SSE will only complete a sale of its equity interests when it is in the interests of shareholders and other stakeholders to do so.

Gas Storage

The economic conditions of gas storage have been challenging in recent years however SSE believes its assets can play an important role during the energy transition.

Following the closure of Rough capacity, SSE now holds around 40% 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 with the UK's continuing shift away from coal-fired generation, 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.

SSE's gas storage assets are well-placed to provide this service to energy users; however, in recent years the market has undervalued this service, making it challenging to cover the cost of maintaining and operating these assets. SSE believes that the economics are improving slightly, and it is expected to return to profit in 2019/20, although SSE remains committed to working with UK Government departments and OFGEM to ensure that the critical role of UK storage in relation to security of supply and stability of gas price is properly rewarded.

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 £10.2 billion as at 31 August 2019. Its average debt maturity as at 31 August 2019 was 6.9 years, compared with 7.0 years at 31 March 2019 (7.9 years as at 31 March 2018). Average cost of debt as at 31 March 2019 was 3.70 per cent. (3.84 per cent. as at 31 March 2018). As at 31 August 2019, fixed rate debt was 92 per cent.

SSE's debt structure remains strong, adjusted net debt and hybrid capital[9] was £9.9 billion as at 31 August 2019 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 £339.8 million. The facilities, external debt and internal loan stocks for the SSE Group as at 31 August 2019 (with sterling equivalents (where applicable) as at that date) were as follows:

SSE

- U.S.$575 million (£366.8 million) U.S. private placement due between 2022 and 2024
- £501.1 million U.S. private placement due between 2023 and 2027
- £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 (£550.5 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 2024 (undrawn)
- €1.5 billion Euro Commercial Paper programme (£492.6 million drawn)
- £200 million revolving credit facility maturing 2022 (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 (£542 million of principal outstanding)
- €650 million 1.375 per cent. bonds due 2027 (£591.4 million of principal outstanding)

[9] 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.

	• £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
	• €200 million (£174.8 million) Floating Rate Note due 2020
SSE Generation Limited	• £1,500 million intercompany loan stock due to SSE
SHEPD	• £142.4 million 1.429 per cent. index linked bonds due 2056
	• £300 million intercompany loan stock due to SSE
SEPD	• £350 million 5.5 per cent. bonds due 2032
	• £325 million 4.625 per cent. bonds due 2037
	• £133.6 million 4.454 per cent. index linked loan maturing 2044
	• £400 million intercompany loan stock due to SSE
SHE Transmission plc	• £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	• £12 million intercompany loan due to SSE
SSE Generation Ireland Limited	• €74.8 million (£67.6 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 2019 (with sterling equivalents (where applicable) as at that date) totalled £2.3 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 (£759.8 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'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.

The first 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 and the value created from them and the longer-term financial outlook.

Investment and capital expenditure

Central to SSE's strategic framework is efficient and disciplined investment in developing and building assets, mainly in economically-regulated energy networks and renewable sources of energy. In practice, this means that investment should be in line with SSE's commitment to strong financial management, consistent with the goals for 2030 adopted in March 2019 and, consistent with its vision of being a leading energy company in a low-carbon world and consistent with its targets for 2030 adopted in March 2019.

During the year to 31 March 2019, SSE's investment and capital expenditure (including SSE Energy Services) totalled over £1.42bn, including over £1bn investment in renewable energy and regulated electricity networks. This is lower than the £1.7bn total investment previously indicated as it excludes £195m of investment in onshore wind and telecoms assets which were subsequently disposed of within the year. The remaining investment and capital expenditure included the following:

- A major investment programme in **electricity networks** totalling over £680m (48% of SSE's total investment and capital expenditure).
- This includes the completion, commissioning and energisation of the Caithness-Moray **electricity transmission** link. With an agreed allowance of £1.1bn, Caithness-Moray has been the largest single investment undertaken by the SSE Group to date. Transmission investment and capital expenditure also included work on the Knocknagael-Tomatin and Beauly-Keith reinforcements, and the Fort Augustus - Fort William upgrade. Together with Caithness-Moray, these four projects made up around half of Transmission's £344m investment and capital expenditure in the year.
- **Electricity Distribution** investment and capital expenditure makes up the other half of the network spend and consists primarily of asset replacement and reinforcement projects including the replacement of subsea cables and several overhead line circuits in Scotland and Central Southern England. This investment, alongside continued upgrading of the electricity distribution network to meet the changing needs of customers, will further increase the total Regulated Asset Value (RAV) of SSE's networks businesses.
- Further investment in **renewable energy** in GB and Ireland totalling £326m (23% of the total). The vast majority of this spend relates to SSE's equity share of the Beatrice offshore windfarm, the final turbine of which was completed in May 2019. SSE's share of this project-financed windfarm is 235MW (40%). Total renewable investment and capital expenditure in the year excludes the spend associated with Stronelairg (288MW) onshore wind farm which was partly disposed of in the year.

- SSE's flexible thermal gas-fired power stations will play a key part in the transition to a low-carbon economy. Investment in complementary **flexible thermal generation** totalled £188m (13% of the total) during 2018/19, including the Keadby 2 and Ferrybridge Multifuel 2 projects, along with development spend on the Slough Multi-fuel project.

- SSE Energy Services investment of £103m mainly relates to infrastructure to support SSE Energy Services' regulatory obligation to install smart meters for its energy supply customers as part of the UK's Smart Metering rollout. At 31 March 2019, SSE had well over one million smart meters on supply in customers' homes. Post installation, SSE's meters transfer to a contracted Meter Asset Provider and SSE's investment and capital expenditure excludes the capital cost of installation and meter assets.

- In addition, £20m was invested in **Enterprise**, mainly supporting Utility Solutions projects and £72m in Corporate Services, which was mainly on IT.

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 now one year into its plan for total investment and capital expenditure of around £6bn across the five years to March 2023. Economically-regulated electricity networks and renewable sources of energy are expected to account for around 70% of this. As is to be expected, the investment is weighted more towards the first half of the five-year period than the second; with £1.4bn incurred in 2018/19 plus £138m in relation to Stronelairg and £57m relating to Telecoms and around £1.5bn currently planned for 2019/20.

Around 85% of the £6bn is either already spent or committed. It includes around £3bn of investment in electricity networks, which should support further growth in the RAV of SSE's energy networks businesses to around £10bn in 2023 (this includes SSE's stake in SGN). It also includes investment in electricity generation such as a new £350m highly efficient and flexible gas-fired power station at Keadby 2 in Lincolnshire, an additional multi-fuel plant at Slough and potential investment in offshore wind farms.

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 infrastructure provision, and it will not resort to taking on inappropriate risks or accepting returns on investment that are financially unsustainable.

Sustainability and Climate Change

SSE's vision is to be a leading energy company in a low-carbon world. Its purpose is to provide the energy needed today while building a better world of energy for tomorrow. And its strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure in a sustainable way.

A sustainable company is one that offers profitable solutions to the world's problems. In support of its vision, purpose and strategy, SSE has adopted four fundamental business goals for 2030 which are directly aligned to the United Nations' Sustainable Development Goals ("**SDGs**"). These Goals put addressing the challenge of climate change at the heart of SSE's strategy at the same time as addressing sustainable social development. The aim is to enable the Group to realise its vision of being a leading energy company in a low-carbon world.

The four new 2030 Goals, aligned to the UN's SDGs, underpin SSE's strategic focus on long-term, low-carbon and sustainable assets and they commit SSE to delivering its strategy in a way that creates value for shareholders and for society.

SSE's strategic focus on core businesses that support and enable the transition to a low-carbon electricity system provided an important opportunity to ensure SSE's drive to be a sustainable business is not in addition to its core strategy, but central to it.

Following a year of consultation with employees and key external stakeholders, it was decided to align SSE's sustainability framework with the UN's SDGs. Employees considered it important that SSE places itself within the context of a greater global effort, particularly in the fight against climate change. External stakeholders were particularly keen to encourage visibility of progress against set targets and to ensure clear accountability for meeting them.

SSE identified four SDGs which are highly material to its business: SDG 13 Climate Action; SDG 7 Affordable and Clean Energy; SDG 9 Industry, Innovation and Infrastructure; and SDG 8 Decent Work and Economic Growth. In March 2019, it set ambitious business goals for 2030 that aligned to each of the most material SDGs and most importantly are central and core to SSE's business purpose and strategy:

- reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150gCO2/kWh;
- develop and build by 2030 enough renewable energy to treble renewable output to 30TWh a year;
- build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030; and
- be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

As well as integrating the UN's SDGs into its business strategy and operations, SSE follows a number of other external best practice frameworks and benchmarks. It also actively seeks to improve its performance against environmental, social and governance (ESG) criteria commonly used by investors and other stakeholders.

Regulatory Environment

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 uses its 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.

Networks

SSE delivers energy safely to homes and businesses in GB through its SSEN businesses. It owns and operates electricity distribution networks in the North of Scotland and central southern England, and the electricity transmission network in the North of Scotland. SSE also has a one third stake in the gas distribution company, SGN. These businesses distribute energy to homes and workplaces in Scotland and the south of England and are subject to regulatory controls set by OFGEM.

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.

Since the start of the eight-year RIIO-T1 Price Control in 2013, capital investment in SHE Transmission has totalled around £2.7bn, with this investment playing a pivotal role in providing the critical national infrastructure required to facilitate the transition to a decarbonised energy system. In addition to the base rate of return on the RAV of SSEN's transmission assets, RIIO-T1 allows additional revenue to be earned through financial incentives based on efficient use of Totex.

The outcome of Totex efficiency savings is dependent on the successful completion of large-scale projects and the successful close out of RIIO-T1 after 2021. SSEN expects it will deliver Totex savings over the course of RIIO-T1 which will be shared equally between SSEN, supporting future earnings, and electricity customers, through lower charges than would otherwise have been the case.

Despite the current period of rapid growth in transmission development, SSEN continues to maintain a reliability of over 99.9%. During 2018/19, SSEN earned the maximum reward of £1.2m through the ENS Incentive. The ENS Incentive provides a financial reward, on a sliding scale, if the volume of energy not supplied to customers due to faults is below a pre-determined annual target, which for SSEN Transmission is 120MW. If the target is exceeded, a financial penalty is applied.

As its transmission assets reach the end of their operational life, SSEN has an ongoing programme of maintenance and refurbishment to ensure its critical, national infrastructure assets continue to deliver for electricity customers, generators and wider society.

In December 2018, SSEN successfully energised the Caithness-Moray subsea transmission link, which remains the largest single investment ever undertaken by the SSE Group. Total spend for the project is forecast to be around £970m against an allowance of £1,062m, net of £55m of allowance already returned through the Price Control (all in 2013/14 prices). SSEN's efficient delivery of the Caithness-Moray link will result in efficiency savings through the Totex mechanism, supporting future earnings.

During 2018/19, SSEN increased the renewables capacity supported by its network by over 1GW, in what was another record year for renewable connections to SSEN's transmission network. This means the installed renewable electricity generation capacity connected to SSEN's transmission network has grown from 3.3GW at the start of the RIIO-ET1 price control in April 2013 to over 6GW and is forecast to grow to over 6.5GW by the end of the current price control period in 2021. SSEN will continue to work collaboratively with its connection customers to deliver timely and efficient connections to its network.

In the remaining years of the RIIO-T1 Price Control, SSEN has a healthy pipeline of transmission projects. With a total planned investment of over £600m, the transmission business remains on track to increase its RAV to around £3.6bn by 2021.

SSEN continues to work with stakeholders across the three Scottish island groups (Orkney, the Western Isles and Shetland) to take forward proposals to provide transmission connections to facilitate the export of substantial

renewable electricity generation potential to the mainland. Together, the three links could provide an investment opportunity of around £1.5bn for SSEN. With all three island link Needs Cases with OFGEM for consideration under the RIIO-T1 process and the project development for each island link at an advanced stage, SSEN will continue to engage constructively to take forward its proposals in a timely manner, as soon as developer commitment and all necessary regulatory and planning approvals are confirmed.

SSEN continues to have a number of significant concerns about OFGEM's implementation of competition in transmission, particularly the CPM and SPV delivery models currently in development.

SSEN believes OFGEM's current proposals effectively reopen the RIIO-T1 Price Control; are justified on unproven customer benefits; are not underpinned by legislation or a regulatory framework; and risk delays to the delivery of well-established and advanced projects. SSEN is also increasingly concerned that the introduction of competition in the way envisaged will result in a fragmentation of responsibility, risking network reliability and introducing safety concerns.

Whilst SSEN will continue to engage constructively with OFGEM and other stakeholders as part of this process, it will also consider all options available to ensure the integrity of the Price Control is maintained and the development of existing projects continues, including the potential for legal challenge.

RIIO2

In July 2017, OFGEM published an open letter on the RIIO-2 Framework, initiating the next price control review. SSEN supports OFGEM's intention to give consumers a stronger voice in setting outputs, shaping and assessing business plans and welcomes OFGEM's focus on allowing network companies to earn returns that are fair and represent good value for consumers, reflect the risks faced in these businesses, and prevailing financial market conditions.

OFGEM has subsequently consulted on and issued decisions on changes to the RIIO framework and specific transmission sector methodologies for the next RIIO price control beginning in April 2021, RIIO-T2. 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.

SSEN remains concerned that OFGEM has failed to give appropriate weight to benefits delivered to customers and stakeholders during RIIO-1 and has instead proposed a RIIO-2 framework which blunts existing efficiency incentives in a desire to secure a predictable outcome. In its response to the consultation, SSEN set out a number of areas the regulatory mechanisms of RIIO-1 which have delivered material stakeholder benefits, encouraging OFGEM to ensure these remain in place. These mechanisms are:

- an output incentive package large enough to allow a high performing network to reach the upper return range;
- a strong Totex incentive, to ensure networks continue to drive efficiency;
- a strong and equitable business plan incentive that allows networks to reveal potential in the knowledge that they will share in the benefits;
- an innovation stimulus which supports solutions to current as well as future network challenges; and
- a fair financial package for investors that recognises current and future risk.

SSEN will continue to advocate constructively for a regulatory framework that strikes the right balance between driving efficiency and maintaining a stable investment climate that continues to deliver improvements in network reliability, innovation and customer service and pave the way for the further decarbonisation of the energy system.

In June 2019 SSEN Transmission published its draft Business Plan for the RIIO T2 Price Control, 'A Network for Net Zero'. The draft Business Plan, informed by extensive stakeholder engagement over the previous 18 months, includes details of SSEN Transmission's 'Certain View' of the next Price Control period which sets out that a

minimum total expenditure of £2.2bn is required over the five-year Price Control period to maintain and grow the north of Scotland transmission network to meet the certain needs of current and future electricity generators and customers. A significant proportion of this investment will take place in the north east, with a particular focus on accommodating the growth in offshore wind in the area.

This could see the Regulatory Asset Value of SSEN Transmission increase to over £5bn by the end of RIIO-T2 in 2026, excluding any contribution from island links. It is anticipated additional investment will be required to deliver the transition to net zero, but this investment will only be released once there is certainty it is needed – protecting billpayers.

To deliver its plans, SSEN Transmission estimates its average cost to the GB consumer over the RIIO-T2 period will be around £7 a year.

SSEN Transmission will now consult further with stakeholders ahead of submitting a final plan to OFGEM in December as part of its RIIO T2 price control process. As part of OFGEM's consideration of the final plan, the regulator will consult with stakeholders during 2020 before determining what level of investment should be taken forward from 2021 through to 2026.

SSEN will continue to advocate constructively for a regulatory framework that strikes the right balance between driving efficiency and maintaining a stable investment climate that continues to deliver improvements in network reliability, innovation and customer service and pave the way for the further decarbonisation of the energy system.

Electricity distribution

In the north of Scotland, SHEPD is the licensed distribution network owner and operator and in southern and central England SEPD is the licensed distribution network owner and operator. 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.

Under the RIIO price control framework the revenue that each of SHEPD and SEPD can earn is subject to control. Revenue is also linked to delivery of specific outputs.

SHEPD's and SEPD's 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 SEPD licensed area. The notice did not make any finding on alleged infringement of competition law and OFGEM closed its investigation. The commitments offered are legally binding and SSE has as a result put in place new processes and procedures in relation to its connections activities. Routine reporting has also been made to OFGEM setting out details of changes and the extent to which they have helped ensure SSE continues to meet commitments. Arrangements are also audited by an independent third party and their report is also submitted to OFGEM. OFGEM considers that the commitments made fully address the competition concerns identified and to date no material issues have been identified in routine reports presented to OFGEM and no further issues or concerns have been raised by OFGEM.

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.

With two years left of the current eight-year price control (RIIO-GD1), SGN remains committed to meeting all OFGEM outputs as well as ensuring it maximises its regulatory incentives. Consultation is now on developing its business plan for the next five-year price control (RIIO-GD2), which will take effect from April 2021.

Electricity Generation

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 November 2018, the General Court of the Court of Justice of the European Union ('ECJ') annulled the state aid approval granted by the European Commission in July 2014 for the UK Capacity Market scheme. This judgment was decided on procedural grounds – concluding that the European Commission should have consulted more fully before granting state aid approval. The judgment effectively removes state aid approval for the UK Capacity Market from the 2018/19 delivery year onwards, preventing the UK Government from holding any capacity auctions or making any capacity payments under existing agreements until re-approval of the scheme. In February 2019, the European Commission opened an in-depth investigation under state aid rules into the scheme.

Following the ECJ judgement in November 2018, the UK Government confirmed that payments under existing capacity agreements will be suspended. It was also confirmed that payments made for the Transitional Arrangements Auctions in January 2016 and March 2017, and the Supplementary Capacity Auction in January 2017 would not be affected as state aid for these auctions was granted separately (although the Transitional Arrangements Auctions have been subsequently challenged). In February 2019, the UK Government confirmed that they would not restart mandatory collection of supplier charges until the scheme was re-approved. As an interim measure, to ensure suppliers have clarity regarding the size of their payment liability during the "standstill" period, schedules of payments would be issued and updated on a periodic basis. This is consistent with OFGEM's announcement, also in February 2019, that the second price cap period would include a full Capacity Market allowance.

As a result of the ECJ ruling, and the suspension of payments, approximately £58m of expected Capacity Market revenue has not been recognised by the Group's Electricity Generation business in the financial year 18/19. Prior to this financial year, the Group had only received income from Supplementary Capacity Auction Agreements and is therefore unaffected by the recent Transitional Arrangements Auctions challenge.

Given the UK Government continues to believe that the Capacity Market is the right mechanism for delivering security of supply at the lowest cost to consumers, and stated in February 2019 that it intends to "ensure that suspended payments are made to holders of capacity market agreements for 2018/19", SSE has continued to assume receipt of UK Capacity Market revenue within its impairment reviews.

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.

Following the reference by OFGEM 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; here is no unilateral market power in generation; here 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.

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 remain 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; the faster switching programme which aims to reduce significantly the time it takes customers to switch supplier and make the process more reliable; and the "midata" 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.

SSE believes strongly in the potential for smart meters to transform its relationship with customers and is focused on delivering its obligation to roll out smart meters in a way which is safe, minimises the costs and maximises the benefits for customers. In line with its ambition, SSE continues to perform well compared to industry benchmarks on safety, customer satisfaction, electronic billing and energy efficiency advice, according to the BEIS quarterly benchmarking report. While progress has been good, the programme continues to face issues in the form of outstanding technical constraints on meter functionality and central system infrastructure. The key challenge, however, is around driving customer demand for smart meters. SSE has introduced exclusive offers for customers taking a smart meter and SSE continues to support the work of Smart Energy GB to raise awareness and interest in smart meters more generally.

While there were many achievements in 2018, including meeting its OFGEM interim milestone target for electricity, SSE Energy Services was disappointed to have fallen slightly short on meeting its interim milestone target for gas. SSE Energy Services worked with OFGEM to resolve this matter as quickly as possible and a payment of £700,000 was made to OFGEM's Voluntary Redress Fund in March 2019. The shortfall was quickly recovered during February 2019 and good progress is being made against the 2019 plan. As of 31 March 2019, SSE Energy Services had over 1.2m smart meters on supply in customers' homes and had made good progress in successfully transitioning to the new SMETS2 generation of smart meters, which bring fuller functionality to customers. Despite ongoing challenges associated with the availability of key enabling technology and low customer demand, the business remains committed on meeting its obligation in a way which is safe, cost-effective and maximises the benefits to customers.

Throughout 2019/20, SSE Energy Services will look to seize the opportunities presented by smart meters by harnessing smart data to engage and empower customers while also launching new, smart-enabled services and propositions.

Default Tariff Cap

The key remedy proposed in the CMA's Final Report was the Prepayment meter (PPM) price cap which is in force from 2017-2020. The topic of retail price regulation remained controversial, however, and in the 2017 UK general election, several political parties, including the Conservative Party, proposed that further intervention was required in the market. In early 2018, OFGEM extended the PPM price cap to include around one million customers (of suppliers with more than 250,000 customers) who were on their supplier's default tariff.

The continuing threat of further intervention was realised when in 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 legislation, passed in July 2018, allows OFGEM to set a temporary price cap for standard variable tariff and certain other default tariff customers in GB and will 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 Default Tariff cap came into force on 1 January 2019 and must end by the end of 2023.

SSE supports the development of a healthy, well-functioning competitive market and continues to believe the competition described above, not caps, best serves the long-term interests of customers. The level at which the cap has been set is disappointing and is not, in SSE's view, sustainable or cost-reflective. In addition, the methodology and input data underpinning the cap is complex, as is the process for future adjustments. It is clear from its statutory consultations that OFGEM expects all suppliers should be able to achieve lower-quartile operating costs, which will be strongly influenced by new entrants with a number of cost advantages and therefore presents more established suppliers with a significant challenge. Against this backdrop of planned price controls and fierce competition, SSE continues to work hard to minimise its controllable costs and become as efficient as possible, while maintaining a focus on delivering the right outcomes for customers, including enhanced deployment of digital services for customers.

The Tariff Cap Act 2018 requires OFGEM to carry out a review into whether conditions are in place for effective competition in the domestic market. In May 2019 OFGEM issued a discussion paper on its approach for assessing whether conditions are in place for effective competition. OFGEM will finalise and publish the framework in Autumn 2019 and make recommendations to the Secretary of State by 31 August 2020. The Secretary of State will publish a statement by 31 October 2020 as to whether the cap continues into 2021.

Prepayment meter cap

The Prepayment meter (PPM) price cap, which was the key remedy proposed in the CMA's Final Report, has already been implemented but still represents risks to SSE. It is transitional and in force from 2017-2020. It applies to all PPM customers with either 'dumb' meters or SMETS1. The CMA accepted that the price cap should not apply to customers with SMETS 2 smart meters. From 1 April 2017, the amount suppliers can charge a domestic prepayment customer has been subject to the cap, which is set by OFGEM twice annually (in August for October-March and in February for April- September) in accordance with the provisions in the Energy Market Investigation (Prepayment Charge Restriction) Order 2016. This limits the margin that suppliers can charge customers who pay through prepayment meters.

The CMA reviewed the operation of the Prepayment Charge Restriction Order (PCR) and in July 2019 published its final decision that whilst the PPM price cap has been meeting its principal aim of mitigating consumer detriment it is set too low which may mean suppliers reduce service levels to prepayment customers, competition is materially reduced, and suppliers may be forced to exit the market. The CMA's review found that policy and smart meter costs have materially changed since the design and introduction of the PCR. The CMA concludes that the Default Tariff Cap is a more accurate reflection of costs incurred by efficient suppliers and therefore that the most effective way to vary the Order is to adopt OFGEM's Default Tariff Cap methodology, adjusted to reflect the

specific costs in supplying prepayment customers. The CMA has determined that this change should be implemented in time for the October 2019 revision of the cap.

The CMA has made a recommendation to the Authority to continue protection for prepayment customers after the expiry of the PCR due to the slow roll-out of smart meters. The CMA contends that the roll-out is not as expected and evidence shows that it is not on track to complete by the end of 2020 and may be as much as two years behind schedule. In addition, the Order will be varied to ensure that if OFGEM introduces a separate protection for prepayment customers from 1 October 2020, the PCR would end on 30 September 2020 to allow the new protection to start at the end of a charge restriction period.

Whilst this is a decision that SSE supported, SSE continues to believe that the methodology could be further improved and SSE is engaging with OFGEM on this. Separately, SSE continues to advocate the removal of the caps at the earliest opportunity.

Supplier failures

The energy supply market is currently seeing unprecedented levels of supplier failure, which introduces substantial and unplanned financial pressure to existing participants. The mutualisation costs of non-payments to social and environmental programmes must be paid for by active suppliers and their customers. These costs are unplanned and are not insignificant, and combined with the increased Distribution Use of System charges that collect the revenue to fund the industry levy, these additional costs are likely to increase the financial burden on other struggling suppliers. This heightens the likelihood of more failures, which puts strain on the market and poses risks to SSE.

Microbusiness review

In May 2019 OFGEM published its Call for Evidence regarding the state of the market for microbusiness customers. This follows the implementation work undertaken by OFGEM on the CMA remedies, such as the Price Transparency remedy, which was introduced in June 2017. This remedy requires suppliers to provide clear prices to microbusiness customers through a quotation tool on their own websites or Price Comparison Websites (PCWs) and is well supported across the market. OFGEM considers, however, that the market interventions made to date have not been effective in improving outcomes for MBCs. OFGEM highlights that it has identified a continuing lack of transparency for customers, low engagement in the market and concerns regarding the approach taken by brokers. Its review will focus on identifying short and medium term actions within the existing market structure and regulatory framework. Following analysis of the call for evidence responses OFGEM will present its updated position and next steps in winter 2019.

Future energy market review

The UK Government and OFGEM are of the view that the energy retail market framework, with the one-size-fits-all licence, is not agile and risks holding back the energy transition. In November 2018 they launched a joint review to investigate the policy, legal and regulatory changes that might be needed to ensure the market framework is fit for purpose. This review will join up with the Government and OFGEM's existing work, including the Microbusiness Strategic Review.

The review considers: how the regulatory framework could be changed to facilitate the launch of products and services which support decarbonisation, but may be frustrated by the current framework; how to better align/reform policy and other regulatory obligations to improve competition; and how the retail market can deliver a good deal for all consumers.

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, in each case as at the latest practicable date before the date of this prospectus. 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. In particular, Noteholders should be aware that the tax legislation of any jurisdiction where a Noteholder is resident or otherwise subject to taxation (as well as the jurisdiction discussed below) may have an impact on the tax consequences of an investment in the Notes including in respect of any income received from the Notes.

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 FCA 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, as amended, 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, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. 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 18 September 2019 (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 IDD, 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.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. 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 offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

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

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

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

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, each Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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): 549300KI75VYLLMSK856/

[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 (EU) 2016/97 (the "**IDD**"), 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.]

[**Singapore Securities and Futures Act Product Classification** – In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products] / [capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded] / [Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products.][10]

[10] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 18 September 2019 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**"). This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation 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 18 September 2019. This document constitutes the Final Terms of the Notes described herein for the purposes of Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**") and must be read in conjunction with the Prospectus dated 18 September 2019 [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation, 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 Redemption/Payment Basis:	[●]/Not Applicable
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 Notes obtained:]	[●] [and [●], respectively]]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

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

PROVISIONS RELATING TO REDEMPTION

18	Call Option:		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●]
19	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 FCA 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 FCA with effect from [●].]
(ii) Estimate of total expenses related to [●] admission to trading:	[●]

2 **RATINGS**

Ratings:	The Notes to be issued have been rated: [[S&P Global Ratings 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*)
Estimated net proceeds:	[●]]

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:	[[●], as updated, as set out on the website of the Association of National Numbering Agencies or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/Not Applicable]
FISN:	[[●], as updated, as set out on the website of the Association of National Numbering Agencies or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN]/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 24 September 2019. 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 SSE Audit Committee passed on 20 May 2019, (b) resolutions of the Board of Directors of SHEPD passed on 22 July 2019, (c) resolutions of the Board of Directors of SHE Transmission passed on 22 July 2019 and (d) resolutions of the Board of Directors of SEPD passed on 22 July 2019, respectively.

(3) There has been no significant change in the financial performance or position of (a) SSE or the SSE Group since 31 March 2019 to the date of this Prospectus or (b) SHEPD, SHE Transmission or SEPD since 31 March 2019 to the date of this Prospectus.

(4) There has been no material adverse change in the prospects of (a) SSE or the SSE Group since 31 March 2019 to the date of this Prospectus or (b) SHEPD, SHE Transmission or SEPD since 31 March 2019 to the date of this Prospectus.

(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 a period of 12 months following the date of this Prospectus, copies of the following documents will be available on the website of SSE at https://sse.com/investors/:

(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 2018 and 31 March 2019, respectively, and the audited financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2018 and 31 March 2019, 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 2018 and 31 March 2019, respectively and (ii) the financial statements of SHEPD, SHE Transmission and SEPD for the financial years ended 31 March 2018 and 31 March 2019, 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
Perth PH1 3AQ

Scottish Hydro Electric Power Distribution plc
Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Scottish Hydro Electric Transmission plc
Inveralmond House
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Perth PH1 3AQ

Southern Electric Power Distribution plc
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Reading
Berkshire RG1 8BU

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Ciudad Grupo Santander Edificio Encinar
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Madrid

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2 King Edward Street
London EC1A 1HQ
United Kingdom

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London El 4 4BB

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London NW1 6AA

Lloyds Bank Corporate Markets plc
10 Gresham Street
London EC2V 7AE

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

MUFG Securities EMEA plc
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AJ

NatWest Markets Plc
250 Bishopsgate
London EC2M 4AA

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF

TRUSTEE

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL

ISSUING AND PAYING AGENT, TRANSFER AGENT AND CALCULATION AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London E14 5AL

REGISTRAR, PAYING AGENT AND TRANSFER AGENT

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LEGAL ADVISERS

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To SHEPD, SHE Transmission and SSE as to Scottish law

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To the Dealers and the Trustee as to English law

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