

**WESTERN POWER  
DISTRIBUTION** 

**WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC**

*(incorporated and registered with limited liability in England and Wales under registration number 2366985)*

**£200,000,000 5.75 per cent. Notes due 2040**

**Issue price: 99.042 per cent.**

The £200,000,000 5.75 per cent. Notes due 2040 (the “Notes”) are issued by Western Power Distribution (South Wales) plc (the “Issuer”).

Interest on the Notes is payable on their principal amount annually in arrear on 23 March in each year at the rate of 5.75 per cent. per annum.

The Notes mature on 23 March 2040. The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at a price which shall be the higher of their principal amount and an amount calculated by reference to the yield on the relevant United Kingdom government stock, in each case together with accrued interest as more fully described herein. In addition, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at their principal amount plus accrued interest to (but excluding) the date of redemption, in the event of certain tax changes as described herein. See “*Terms and Conditions of the Notes — Redemption and Purchase*”. Upon the occurrence of certain events as described under “*Terms and Conditions of the Notes — Redemption and Purchase — Redemption at the option of Noteholders on a Restructuring Event*”, the holder of one or more Notes may require the Issuer to redeem its Notes at their principal amount plus accrued interest to (but excluding) the date of redemption.

An investment in the Notes involves certain risks. For a discussion of these risks see “*Risk Factors*”.

Applications have been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) for the Notes to be admitted to the Official List of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for the Notes to be admitted to trading on the London Stock Exchange’s Regulated Market.

References in this Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange’s Regulated Market and have been admitted to the Official List. The London Stock Exchange’s Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Notes are expected to be rated Baa1 by Moody’s Investors Service Limited and BBB+ by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will initially be represented by a temporary global note (the “Temporary Global Note”), without interest coupons, which will be issued in new global note (“NGN”) form and will be delivered on or prior to 23 March 2010 (the “Closing Date”) to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Interests in the Temporary Global Note will be exchangeable for interests recorded in the records of Euroclear and Clearstream, Luxembourg in a permanent global note (the “Permanent Global Note” and, together with the Temporary Global Note, the “Global Notes”), without interest coupons, on or after 4 May 2010 (the “Exchange Date”), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes in the denomination of £50,000 only in certain limited circumstances specified therein.

*Joint Lead Managers*

**Deutsche Bank**

**HSBC**

*Co-Lead Managers*

**National Australia Bank Limited**

**Santander Global Banking & Markets**

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

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

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Notes and, if given or made, any such information or representation must not be relied upon as having been authorised by the Issuer or the Managers (as defined under “*Subscription and Sale*” below). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Notes. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see “*Subscription and Sale*” below.

**IN CONNECTION WITH THE ISSUE OF THE NOTES, HSBC BANK PLC (OR ANY PERSON ACTING ON BEHALF OF HSBC BANK PLC) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT HSBC BANK PLC (OR ANY PERSON ACTING ON BEHALF OF HSBC BANK PLC) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY HSBC BANK PLC (OR ANY PERSON ACTING ON BEHALF OF HSBC BANK PLC) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

All references in this document to “Sterling” and “£” refer to the currency of the United Kingdom.

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## **Risk Factors**

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

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

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

*Words and expressions defined in “Terms and Conditions of the Notes” below or elsewhere in this Prospectus have the same meaning in this section.*

### **Factors that may affect the Issuer’s ability to fulfil its obligations under the Notes.**

#### ***Regulatory Risk***

Under current regulation by the Office of Gas and Electricity Markets (“OFGEM”), the Issuer’s allowed revenue is determined by the distribution price controls set out under the terms of its Distribution Licence, and is typically set by OFGEM every five years. The Issuer has agreed the price control with OFGEM that covers the period from 1 April 2010 to 31 March 2015. Therefore, unless OFGEM reopens the price control, which the Issuer considers unlikely, there is a high degree of certainty as to the level of revenue permitted by regulation until 31 March 2015.

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

#### ***Consequences of Failing to Comply with the Distribution Licence***

A failure by the Issuer to comply with the terms of its Distribution Licence may lead to the making of an enforcement order by OFGEM that could have an adverse impact on the Issuer. OFGEM has powers to levy fines of up to 10 per cent. of turnover on the Issuer for any breach of its Distribution Licence, or in certain circumstances, such as insolvency, the Distribution Licence itself may be revoked.

Unless terminated in the circumstances mentioned above, a Distribution Licence continues indefinitely until revoked by OFGEM following no less than 25 years’ written notice. The Issuer has in place policies, systems and processes to ensure compliance with the Distribution Licence and relevant legislation. While the Issuer is not currently subject to any formal or informal investigation by OFGEM in relation to enforcement matters and is not aware of any area of non-compliance, there can be no guarantee that the Issuer will not be subject to investigation or enforcement action in the future.

#### ***Modifications to the Distribution Licence***

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

### ***Supply Installation Regulations***

Failure to comply with current supply installation regulations could lead to prosecution by the Department of Trade and Industry. While the Issuer has robust inspection and maintenance programmes in place to mitigate this risk, no assurance can be given that the Issuer will not be subject to such action in the future.

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

Failure to comply with legislation, or a health and safety incident, could lead to prosecution by the Health and Safety Executive (the “HSE”). The Issuer places the highest priority on health and safety, and invests in robust training and auditing of all its employees. While the Issuer has regularly achieved class leading performance in this area, no assurance can be given that the Issuer will not be subject to HSE action in the future.

### ***OFGEM Requirements***

The Issuer’s activities are regulated by OFGEM. Failure to operate the network properly could lead to compensation payments or penalties. Failure to invest capital expenditure in line with agreed programmes could lead to deterioration of the network. While the Issuer’s investment programme is targeted to maintain asset condition over a five year period and improve customer interruptions and customer minutes lost over the period, no guarantee can be given that these regulatory requirements will be met.

### ***IT Systems***

The Issuer relies on a number of key IT systems for network operation. Failure to plan and execute suitable contingencies in the event of critical IT system breakdowns could result in poor customer service and/or an inability to operate the network effectively. The Issuer has robust contingency plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given as to their effectiveness going forward.

### ***Environment***

Failure to comply with legislation in the event of an environmental incident could lead to prosecution by the Environmental Agency. While the Issuer has robust operating, inspection and maintenance procedures in place to mitigate this risk, ongoing compliance cannot be guaranteed.

### ***Storm Related Supply Interruptions***

Failure to manage storm related supply interruptions adequately could lead to negative customer perception and adverse publicity. The Issuer has developed robust operating procedures to manage storm related supply interruptions and has, through independent review, achieved benchmark performance in previous incidents. No assurance can be given, however, that satisfactory performance can be delivered in the future.

### ***Pensions***

The majority of the employees and former employees of the Issuer have pension entitlements arising from their membership of the Western Power Distribution Group of the Electricity Supply Pension Scheme, (the “ESPS”). Like many defined benefit pension schemes, the ESPS is in deficit because of the currently low interest rates used to value liabilities, assumptions about the increased life expectancy of members and poor performance from investments in capital markets. Increased pension costs and deficit repair contributions have been made to the ESPS to reduce the deficit. The 76 per cent. of deficit repair costs as of 1 April 2010 that relate to the regulated distribution business of the Issuer have continued to be recognised by OFGEM when setting the income price controls for the period to 31 March 2015, which will fund a proportion of deficit costs relating to the 2010 deficit. OFGEM has indicated that after 2015 it will benchmark total employment costs including pensions so that ongoing pensions costs, as opposed to deficit contributions, will only be funded to the extent that they are part of an efficient cost of employment.

## **Factors which are material for the purpose of assessing the market risks associated with the Notes**

### *Notes may not be a suitable investment for all investors*

Each potential investor in any Note 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 Notes, the merits and risks of investing in the 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 Notes;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### *Risks related to the structure of the Notes*

#### *Early redemption by the Issuer at its option*

The Issuer may, in the limited circumstances set out in Condition 6 of the Terms and Conditions and subject to the provisions as to minimum redemption price there set out, redeem the Notes prior to their stated maturity date. This early redemption feature may limit the market value of the Notes. The market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Notes may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that of the Notes.

#### *Modification and waivers and substitution*

The Terms and Conditions of the Notes 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 Terms and Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification, waiver or authorisation of any breach, or proposed breach, of any of the provisions of the Notes or the Trust Deed or (ii) determine without the consent of the Noteholders that any Event of Default, Potential Event of Default (as defined in the Trust Deed), Restructuring Event or Potential Restructuring Event (as defined in the Trust Deed) shall not be treated as such or (iii) the substitution of another company as principal debtor under the Notes in place of the Issuer, in the circumstances described in Conditions 13 and 14 of the Terms and Conditions of the Notes (provided that, in each case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders).

#### *European Monetary Union*

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the United Kingdom may become a participating Member State and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes may become payable in Euro (ii) the law may allow or require the Notes to be re-denominated into Euro and

additional measures to be taken in respect of the Notes and (iii) there may no longer be available published or displayed rates for deposits in sterling. The introduction of the Euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

#### *EU Savings Directive*

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

Investors should note that the European Commission has announced proposals to amend this Directive. If implemented in their current form, the proposed amendments would *inter alia*, extend the scope of the Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU individual (or certain other persons established in a Member State), and (ii) a wider range of income equivalent to interest.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

#### *Change of law*

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

#### *Eligibility of the Notes for Eurosystem Monetary Policy*

The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Notes are upon issue deposited with one of the international central securities depositories as common safekeeper and 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 (“Eurosystem Eligible Collateral”) either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the European Central Bank from time to time. The Issuer does not give any representation, warranty, confirmation or guarantee to any investor in the Notes that the Notes will, either upon issue, or at any or all times during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

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

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

### *The secondary market generally*

The 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. Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Illiquidity may have a severely adverse effect on the market value of Notes.

### *Interest rate risks*

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

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

The Notes are expected to be rated “Baa1” by Moody’s Investors Service Limited and “BBB+” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. The ratings assigned to the Notes may not reflect the potential impact of all risks that may affect the value of the 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. Any adverse change in an applicable credit rating could affect the trading price for the Notes.

*As the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer*

The Notes will be represented by the Global Notes and, except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. The Global Notes will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

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

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

### ***Legal investment considerations may restrict certain investments***

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



## **Documents Incorporated by Reference**

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

- (a) the auditor's report and audited non-consolidated annual financial statements for the financial year ended 31 March 2008 (which appear on pages 11 to 40 of the annual report for the year ended 31 March 2008) of the Issuer; and
- (b) the auditor's report and audited non-consolidated annual financial statements for the financial year ended 31 March 2009 (which appear on pages 15 to 45 of the annual report for the year ended 31 March 2009) of the Issuer.

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

Copies of the documents incorporated by reference in this Prospectus can be obtained (without charge) from the registered office of the Issuer, the specified office of the Paying Agent for the time being in London and the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/prices-and-news/prices-news/home.htm>.

## Terms and Conditions of the Notes

*The following is the text of the Terms and Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):*

The £200,000,000 5.75 per cent. Notes due 2040 (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Western Power Distribution (South Wales) plc (the “Issuer”) are constituted by a Trust Deed (the “Trust Deed”) dated 23 March 2010 (the “Issue Date”) made between the Issuer and HSBC Corporate Trustee Company (UK) Limited (the “Trustee”, which expression shall include its successor(s)) as trustee for the holders of the Notes (the “Noteholders”) and the holders of the interest coupons appertaining to the Notes (the “Couponholders” and the “Coupons” respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the “Talons”) and the holders of the Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 23 March 2010 (the “Agency Agreement”) made between the Issuer, the initial Paying Agents and the Trustee are available for inspection during normal business hours by the Noteholders and the Couponholders at the principal office for the time being of the Trustee, being at the date of issue of the Notes at 8 Canada Square, London E14 5HQ and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

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

#### **1.1 Form and Denomination**

The Notes are in bearer form, serially numbered, in the denomination of £50,000 with Coupons and one Talon attached on issue.

#### **1.2 Title**

Title to the Notes and to the Coupons will pass by delivery.

#### **1.3 Holder Absolute Owner**

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### **2 Status**

The Notes and the Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank *pari passu*, among themselves and (save for certain obligations required to be preferred by law) equally with all other outstanding unsecured obligations (other than subordinated obligations, if any) of the Issuer from time to time outstanding.

### 3 Negative Pledge

#### 3.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed) the Issuer will, and will procure that each of its Distribution Subsidiaries (as defined below) will, ensure that no Relevant Indebtedness (as defined below) of the Issuer or any Distribution Subsidiary or of any other person and no guarantee by the Issuer or any Distribution 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 Distribution Subsidiary unless the Issuer, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

- (a) all amounts payable by the Issuer 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 same Security Interest, in each case 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 above restriction shall not apply to any Security Interest (1) provided by or in respect of a company becoming a Distribution Subsidiary after the issue date of the Notes and where such Security Interest existed at the time that company becomes a Distribution Subsidiary (provided that such Security Interest was not created in contemplation of that company becoming a Distribution Subsidiary and the principal amount secured at the time of that company becoming a Distribution Subsidiary is not subsequently increased) or (2) created or outstanding in respect of any Non-recourse Indebtedness (as defined in Condition 9) or any leasing or hire purchase agreement of the Issuer or any Distribution Subsidiary provided that the aggregate outstanding principal amount secured by all such Security Interests created or outstanding under this exception (2) shall not at any time exceed the greater of £75,000,000 or 10 per cent. of the Regulatory Asset Base (as defined below) at such time (or the equivalent thereof in any other currency or currencies).

#### 3.2 Restriction on distribution of dividends

So long as any Note or Coupon remains outstanding, the Issuer shall not at any time declare or make a distribution (as defined in Section 209 of the Income and Corporation Taxes Act 1988) or grant a loan or any other credit facility to any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Issuer, has been provided to the Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party.

#### 3.3 Definitions

For the purposes of these Conditions:

**Capital and Reserves** means the aggregate of:

- (a) the amount paid up or credited as paid up on the share capital of the Issuer; and
- (b) the total of the capital, revaluation and revenue reserves of the Group (as defined below), 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 outside shareholders in Subsidiary Undertakings (as defined below) 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 the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 2006, 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 certificate by two directors of the Issuer as to the amount of the Capital and Reserves at any given time may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties whether or not addressed to each such party;

**consolidated**

means, in relation to the financial statements and accounts of the Issuer and/or the Group, those statements and accounts as consolidated under International Financial Reporting Standards, provided that if such consolidated accounts are not prepared, it shall mean the non-consolidated financial statements and accounts of the Issuer prepared in accordance with generally accepted accounting principles in the United Kingdom;

**Distribution Licence**

means an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989, as amended from time to time;

**Distribution Subsidiary**

means any Subsidiary of the Issuer which holds a Distribution Licence from time to time;

**Group**

means the Issuer and, if and to the extent it has any, its Subsidiary Undertakings and “member of the Group” shall be construed accordingly;

**Net Debt**

at any time, means the aggregate amount of all indebtedness for borrowed money (as defined in Condition 9) of the Issuer at such time less the aggregate of:

- (a) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;
- (b) cash in hand; and
- (c) the lower of book and market value (calculated, where relevant, by reference to their bid price) of gilts issued by the United Kingdom Government,

in each case beneficially owned by the Issuer and in each case so that no amount shall be included or excluded more than once;

**Regulatory Asset Base**

in respect of any year, means the regulatory asset base of the Issuer most recently published in respect of such year by the Office of the Gas and Electricity Markets (“OFGEM”) or any successor of OFGEM;

**Relevant Indebtedness**

means:

- (a) any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, 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 or are capable of being quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market; or
- (b) monies borrowed or raised from, or any acceptance credit opened by, a bank, building society or other financial institution; or
- (c) any leasing or hire purchase agreement which would be treated as a finance lease in the accounts of the relevant person;

**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); and

any reference to an obligation being “guaranteed” shall include a reference to an indemnity being given in respect of that obligation.

## **4 Interest**

### **4.1 Interest Rate and Interest Payment Dates**

The Notes bear interest on their outstanding principal amount from and including 23 March 2010 at the rate of 5.75 per cent. per annum, payable annually in arrear on 23 March in each year (each an “Interest Payment Date”) until 23 March 2040.

### **4.2 Interest Accrual**

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

### **4.3 Calculation of Broken Interest**

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “Accrual Date”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

## **5 Payments and Exchanges of Talons**

### **5.1 Payments in respect of Notes**

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **5.2 Method of Payment**

Payments will be made by credit or transfer to a pounds sterling account maintained by the payee with or, at the option of the payee, by a pounds sterling cheque drawn on, a bank in London.

### **5.3 Missing Unmatured Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

### **5.4 Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

### **5.5 Payment only on a Presentation Date**

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

“Presentation Date” means a day which (subject to Condition 8):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a pounds sterling account in London as referred to above), is a Business Day in London.

In this Condition, “Business Day” means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

## **5.6 Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 8. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

## **5.7 Initial Paying Agents**

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Principal Paying Agent; and
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

# **6 Redemption and Purchase**

## **6.1 Redemption at Maturity**

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 23 March 2040.

## **6.2 Redemption at the option of the Issuer**

The Issuer may at its option, having given not less than 30 nor more than 90 days’ notice to the Noteholders in accordance with Condition 12 (which shall be irrevocable), redeem all, but not some only, of the Notes at any time at the price which shall be the higher of the following:

- (a) the principal amount thereof; and
- (b) that price (the “Redemption Price”), expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the Gross Redemption Yield (as defined below) on the Notes, if they were to be purchased at such price on the third dealing day

prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the Reference Stock (as defined below) on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by the Calculation Agent,

together, in each case, with interest (if any) accrued to (but excluding) the date of redemption.

Any reference in these Conditions to principal shall be deemed to include any sum payable as the Redemption Price save in respect of such references in Conditions 6.3 and 6.4.

In this Condition:

“Calculation Agent” shall mean an independent financial institution of international repute, appointed by the Issuer with the prior written approval of the Trustee in order to perform the function of calculating the Gross Redemption Yield and the other determinations and calculations in this Condition;

“Reference Stock” means 4.75 per cent. Treasury Stock due December 2038 or such other United Kingdom Government Stock as the Calculation Agent, with the advice of three leading brokers obtained by the Issuer operating in the gilt edged market and/or gilt edged market makers, shall determine to be appropriate; and

the “Gross Redemption Yield” on the Notes and the Reference Stock will be expressed as a percentage and will be calculated by the Calculation Agent on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields” page 4, Section One: Price/Yield Formulae “Conventional Gilts”; “Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published on 8 June 1998 and updated on 15 January 2002 and as further updated or amended from time to time) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places).

At any time when under these Conditions it is necessary to have, or the Calculation Agent or the Trustee requests, the advice of brokers and/or market makers operating in the gilt edged market, the Issuer shall select and appoint them with the prior written approval of the Trustee and at the expense of the Issuer.

At any time when under these Conditions it is necessary to have a Calculation Agent to perform any functions under these Conditions, the Issuer will appoint such Calculation Agent at the Issuer’s expense on or before any such time.

Notices of redemption will specify the date fixed for redemption and the applicable Redemption Price. Upon the expiry of any notice of redemption, the Issuer shall be bound to redeem the Notes at the applicable Redemption Price.

### **6.3 Redemption for Taxation Reasons**

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 7), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 19 March 2010, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,



the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest (if any) accrued to (but excluding) the date of redemption, 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 required to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.3, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and 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 conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

#### **6.4 Redemption at the option of Noteholders on a Restructuring Event**

(a)

(i) If, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):

(A) an independent financial adviser (as described below) 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; or

(B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Trustee that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6.4 shall cease to have any further effect in relation to such Restructuring Event.

(ii) If, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6.4(a)(i)):

(A) within the Restructuring Period, either:

(x) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or

(y) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and

(B) 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 notice under Condition 6.2 or 6.3, the holder of each Note will, upon the giving by the Issuer (or, as the case may be, the Trustee) of a Put Event Notice (as defined below), have the option (the “Restructuring 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 Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more by any Rating Agency, an investment grade 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. The Issuer may, at any time, with the prior written approval of the Trustee appoint an independent financial adviser for the purposes of this Condition 6.4. If, within 14 London business days following the occurrence of a Restructuring Event, the Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6.4(a)(ii)(B) and (if so required by the Trustee) the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs of such adviser, the Trustee may appoint an independent financial adviser for such purpose.

- (b) Promptly upon the Issuer becoming aware of the occurrence of a Put Event (as defined below), and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding and subject to it being indemnified and/or secured and/or prefunded to its satisfaction, the Trustee shall give notice (a “Put Event Notice”) to the Noteholders in accordance with Condition 12 specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (c) To exercise the Restructuring Put Option, the holder of a Note must deliver at the specified office of any Paying Agent on any Business Day (as defined in Condition 5.5) at the place of such specified office falling within the Put Period, a duly signed and completed notice of exercise in the form (for the time being current and which may, if this Note is held in a clearing system, be any form acceptable to the clearing system delivered in a manner acceptable to the clearing system) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is to be made by cheque, an address) to which payment is to be made under this Condition 6.4(c) accompanied by such Notes or evidence satisfactory to the Paying Agent concerned that such Notes will, following the delivery of the Put Notice, be held to its order or under its control. A Put Notice given by a holder of any Note shall be irrevocable except where, prior to the Put Date (as defined below), an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Notice. For the purposes of this Condition, the “Put Period” shall mean the period of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with this

Condition, the Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the “Put Date”) unless previously redeemed or purchased.

- (d) For the purposes of these Conditions:
- (i) 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 any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more from a Rating Agency 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).
  - (ii) A “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 and (C) the relevant Negative Certification.
  - (iii) “Rating Agency” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors, Moody’s Investors Service Limited or any of its subsidiaries and their successors, Fitch Ratings Limited or any of its subsidiaries and their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee.
  - (iv) A “Rating Downgrade” shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities 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 Rated Securities below investment grade (as described above), the rating is lowered one full rating category.
  - (v) “Rated Securities” means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more which is rated by a Rating Agency.
  - (vi) “Restructuring Event” means the occurrence of any one or more of the following events:
    - (A) (x) the Secretary of State for Trade and Industry (or any successor) giving any Distribution Subsidiary and/or the Issuer written notice of any revocation of its Distribution Licence or (y) any Distribution Subsidiary and/or the Issuer agreeing in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of its Distribution Licence or (z) any legislation (whether primary or subordinate) being enacted terminating or revoking the Distribution Licence of any Distribution Subsidiary and/or the Issuer, except in any such case in circumstances where a licence or licences on substantially no less favourable terms is or are granted to (1) the Issuer or a wholly-owned

Subsidiary of the Issuer (the “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 or becomes the primary obligor under the Notes in accordance with Condition 14; or

- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of any Distribution Subsidiary’s or the Issuer’s Distribution Licence unless two directors of the Distribution Subsidiary or, as the case may be, of the Issuer, have certified to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Distribution Subsidiary or, as the case may be, of the Issuer; or
  - (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the functions and duties 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 1989, as amended by the Utilities Act 2000 (as this may be amended from time to time), unless two directors of the Issuer have certified to the Trustee that such removal, qualification or amendment does not have a Material Adverse Effect (as defined in the Trust Deed) on the financial condition of the Issuer or any Distribution Subsidiary.
- (vii) “Restructuring Period” means:
- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
  - (B) if at the time a Restructuring Event occurs there are no Rated Securities, 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 (x) the date (if any) on which the Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (y) the expiry of the 14 days referred to in the definition of Negative Rating Event; and (z) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event.
- (viii) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating for the purpose of Condition 6.4(a)(i)(B) shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 6.4 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Trustee is under no obligation, responsibility or liability to ascertain whether a Restructuring Event, a Put Event, a Rating Downgrade or a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event, a Put Event, a Rating Downgrade or a Negative Rating Event has occurred and, until it shall have express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Restructuring Event, Negative Rating Event, Put Event or Rating Downgrade or other such event has occurred. In determining whether or not a

Restructuring Event has occurred, the Trustee shall be entitled to rely solely and without liability on an opinion given in a certificate signed by two directors of the Issuer.

## **6.5 Purchases**

The Issuer or any affiliate of the Issuer may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

## **6.6 Cancellations**

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 6.5 above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **6.7 Notices Final**

Upon the expiry of any notice as is referred to in Condition 6.2, 6.3 or 6.4 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Condition (in the case of Condition 6.4 above, save as otherwise provided therein).

# **7 Taxation**

## **7.1 Payment without Withholding**

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with a Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment by or on behalf of a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note or Coupon is presented; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date.

## **7.2 Interpretation**

In these Conditions:

“Relevant Date” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12; and

“Relevant Jurisdiction” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

## **7.3 Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

## **8 Prescription**

Notes and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 5. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition 8 or Condition 5.

## **9 Events of Default**

### **9.1 Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but in the case of the happening of any of the events described in Conditions 9.1(b), (c) and (e) to (g) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its principal amount together with accrued interest (if any) as provided in the Trust Deed if any of the following events (each an “Event of Default”) shall have occurred:

(a) *Non-Payment*

if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6.4 fails to do so within a period of 14 days of having become so obliged; or

(b) *Breach of Other Obligations*

if the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions 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) the 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 on the Issuer of notice requiring the same to be remedied; or

(c) *Cross-Default*

if (i) 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 (ii) 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 (iii) 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 (iv) any security given by the Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case 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 Condition 9.1(c) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this Condition 9.1(c) applies) and two per cent. of the Capital and Reserves, and for the purposes of this Condition 9.1(c), “indebtedness for borrowed money” shall exclude Non-recourse Indebtedness; or

(d) *Winding-up*

if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of and followed by amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or

(e) *Winding-up of Principal Subsidiary*

if any order is made by any competent court or any resolution is passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of and followed by amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) 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 Subsidiaries (other than an Excluded Subsidiary) or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or

(f) *Ceasing to Carry on the Business*

if the Issuer or any Principal Subsidiary shall cease to carry on the whole or, in the opinion of the Trustee, substantially the whole of its business, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) (x) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and (y) under which all or, in the opinion of the Trustee, substantially all of its assets are transferred to another member of the Group (other than an Excluded Subsidiary) or to a transferee which is, or immediately upon such transfer becomes, a Principal Subsidiary or (B) under which all or, in the opinion of the Trustee, 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, provided that (in the case of (A) or (B) above) if the Issuer transfers its Distribution Licence, the transferee has, at or around the time of transfer, either executed in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may require or become a primary obligor under the Notes in accordance with Condition 13; or

(g) *Insolvency*

if the Issuer or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under section 1 of the Insolvency Act 1986, as amended; or

(h) *Administration and Enforcement Proceedings*

if 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, in the opinion of the Trustee, 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 an encumbrancer shall take possession of, the whole or, in the opinion of the Trustee, 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).

For the purposes of Condition 9.1(g) above, section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as OFGEM (or any successor) may from time to time determine by notice in writing to the Secretary of State for Trade and Industry and the Issuer.

Neither the Issuer nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of Condition 9.1(g) 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 (if any) as may be stated in any notice given by the Trustee under this Condition 9.

## 9.2 Definitions

For the purposes of these Conditions:

"Excluded Subsidiary" means any Subsidiary of the Issuer (other than a Relevant Subsidiary):



- (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 another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in subparagraph (ii)(C). of the definition of Non-recourse Indebtedness below; 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;

“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;

“Non-recourse Indebtedness” means any indebtedness for borrowed money:

- (i) which is incurred by an Excluded Subsidiary; or
- (ii) in respect of which the person or persons to whom any such indebtedness for borrowed money 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 to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; and/or
  - (B) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over any such asset or assets 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 for borrowed money, provided that (aa) the extent of such recourse to such borrower 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 for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
  - (C) recourse to such borrower generally, or directly or indirectly to a member of the Group, 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 the person against whom such recourse is available.

“Principal Subsidiary” at any time shall mean each Subsidiary of the Issuer (in each case not being an Excluded Subsidiary or any other Subsidiary of the Issuer, as the case may be, whose only indebtedness for borrowed money is Non-recourse Indebtedness):

- (i) whose (a) profits on ordinary activities before tax or (b) gross assets, in each case attributable to the Issuer represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries) and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group 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, adjusted as deemed appropriate by the Auditors; or
- (ii) 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 cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii), upon publication of its next audited financial statements (but without prejudice to the provisions of sub-paragraph (i) above) 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 (i) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (ii).

A certificate by two directors of the Issuer 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 may be relied upon by the Trustee without further enquiry or evidence and the Trustee will not be responsible or liable for any loss occasioned by acting on such a certificate and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties, whether or not addressed to each such party.

## **10 Enforcement**

### **10.1 Enforcement by the Trustee**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding. Nor shall the Trustee be bound to take or omit to take any step or action (including such proceedings) unless it has been indemnified and/or secured and/or prefunded in each case to its satisfaction in respect of all costs, claims, expenses and liabilities to or for which it may, in its opinion, thereby become liable.

## **10.2 Enforcement by the Noteholders**

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## **11 Replacement of Notes and Coupons**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **12 Notices**

### **12.1 Notices to the Noteholders**

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed or traded. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition 12.1.

### **12.2 Notices from the Noteholders**

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Principal Paying Agent or, if the Notes are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

## **13 Substitution**

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer to the substitution of certain other entities (other than an Excluded Subsidiary) 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, subject to:

- (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless the Issuer's successor in business is the substituted entity);
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

## **14 Meetings of Noteholders, Modification, Waiver, Authorisation and Determination**

### **14.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed as more particularly described in the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the 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. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

### **14.2 Modification, Waiver, Authorisation and Determination**

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default, Potential Event of Default (as defined in the Trust Deed), Restructuring Event or Potential Restructuring Event (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders and in the case of any modification, except as mentioned in the Trust Deed) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

### **14.3 Trustee to have Regard to Interests of Noteholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

#### **14.4 Notification to the Noteholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

### **15 Indemnification of the Trustee and its Contracting with the Issuer**

#### **15.1 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

#### **15.2 Trustee Contracting with the Issuer**

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

### **16 Further Issues**

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

### **17 Governing Law**

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

### **18 Rights of Third Parties**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **Summary of Provisions relating to the Notes while represented by the Global Notes**

*The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by a Global Note.*

### **1 Nominal/Principal Amount and Exchange**

The nominal or principal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear and/or Clearstream Luxembourg or any alternative clearing system approved by the Trustee (the "Alternative Clearing System") (each a "relevant Clearing System"). The records of such relevant Clearing System shall be conclusive evidence of the nominal amount of Notes represented by the Temporary Global Note and the Permanent Global Note and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time.

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any of the events defined in the Trust Deed as "Events of Default";
- (b) if both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no Alternative Clearing System is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of any relevant Clearing System which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, "Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant Clearing System is located.

### **2 Payments**

On and after 4 May 2010, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal

and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to its holder. 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 will be reduced accordingly. 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. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### **3 Notices**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that relevant Clearing System for communication to the relative Accountholders rather than by publication as required by Condition 12. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to the relevant Clearing System as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the relevant Clearing System and otherwise in such manner as the Principal Paying Agent and the relevant Clearing System may approve for this purpose.

### **4 Accountholders**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of a relevant Clearing System, each person (other than a relevant Clearing System) who is for the time being shown in the records of the relevant Clearing System as the holder of a particular principal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by a relevant Clearing System as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 9) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to the relevant Clearing System for its share of each payment made to the bearer of the relevant Global Note.

### **5 Prescription**

Claims against the Issuer in respect of principal, premium and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

### **6 Cancellation**

On cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase, the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by such Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

## **7 Put Option**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of any relevant Clearing System, the option of the Noteholders provided for in Condition 6.4 may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of the relevant Clearing System (which may include notice being given on his instructions by any relevant Clearing System or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised within the time limits set forth in that Condition.

The Issuer shall procure that any exercise of any option or any right under the Notes, as the case may be, shall be entered in the records of the relevant Clearing Systems and upon any such entry being made, the principal amount of the Notes represented by such Global Note shall be adjusted accordingly.



## **Use of Proceeds**

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes.

## Description of the Issuer

### History

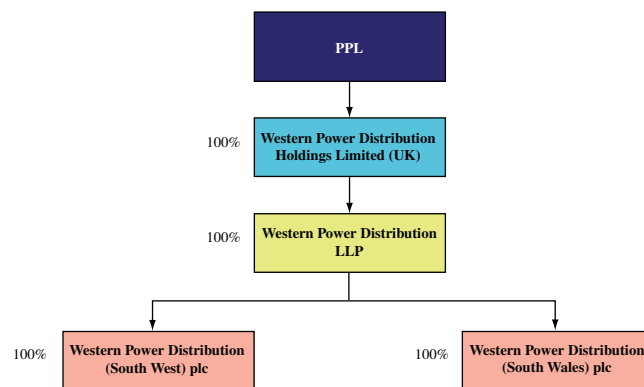
Western Power Distribution (South Wales) plc (“WPD South Wales”) is the regulated monopoly distributor of electricity in South Wales. WPD South Wales was incorporated as a public limited company under the Companies Act 1985 on 1 April 1989. Its telephone number is + 44-117-933-2000.

WPD South Wales is an indirect, wholly-owned subsidiary of Western Power Distribution Holdings Limited (“WPDH”) and is therefore part of the Western Power Distribution group of companies (the “WPD Group”). WPDH also indirectly wholly-owns the share capital of Western Power Distribution (South West) plc (“WPD South West”), which has the monopoly for distributing electricity in the south-western area of England. The WPD Group has been wholly-owned by PPL Corporation (“PPL”) since 6 September 2002.

### PPL

PPL Corporation, headquartered in Allentown, Pennsylvania, is an energy and utility holding company that was incorporated in 1994. Through its subsidiaries, PPL generates electricity in power plants in the northeastern and western U.S.; markets wholesale or retail energy primarily in the northeastern and western portions of the U.S. and delivers electricity to approximately 4 million customers in Pennsylvania and the U.K.

### Corporate structure (summary)



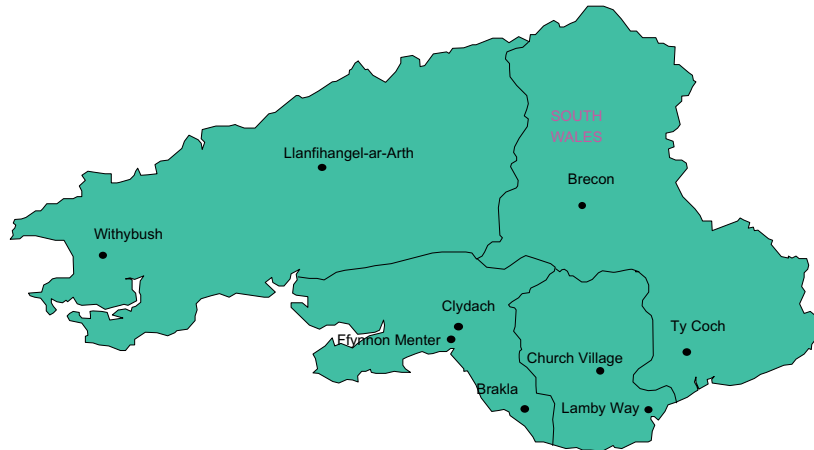
### Description of WPD South Wales

WPD South Wales’ distribution licence authorises it to distribute electricity in an area covering approximately 11,800 square kilometres in southern Wales. WPD South Wales’ network, which consisted of approximately 18,145 kilometres of overhead lines and 16,800 kilometres of underground cable as of 31 March 2009, distributed 12.4 terawatt hours (“TWh”) of electricity in 2008/09, with a peak demand of 2,099 MW.

The WPD service area in Wales covers the south of the country. It covers an extremely diverse region including areas such as the Brecon Beacons National Park to the north and city of Cardiff in the south. It is a region which has historically been heavy-industry intensive, in industries such as coal and steel production. As these industries have declined South Wales has moved into more service-oriented industries and taken advantage of inward investment in sectors such as electronics, automotive components and general engineering.

The largest cities and towns in WPD South Wales’ service area are Cardiff, Swansea and Newport. Most of the population of South Wales is located in the coastal belt region between Newport and Llanelli, (to the east and west of Cardiff), or in the valleys region to the north of this coastal belt. The remainder of the area is sparsely populated.

## The WPD South Wales service area



### Regulation

Each distribution business constitutes an effective regional monopoly and is subject to control on the prices it can charge and the quality of supply it must provide. The operations of WPD South Wales are regulated under its distribution licence pursuant to which income generated is subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. Under the licence, WPD South Wales is under a statutory duty to connect any customer requiring electricity within its area and to maintain that connection. Its licence may be terminated on 25 years' notice given by the Secretary of State for Trade and Industry and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

The charges made for the use of the distribution network are regulated on the basis of the RPI plus/minus X formula. The RPI is a measure of inflation and the particular index used measures the percentage change in the RPI in the six month period of July to December in the previous year, compared to the level in the prior year. The X factor is established by the Regulator following review and represents an efficiency factor. This formula determines the maximum average price per unit of electricity distributed (in pence per kilowatt hour) that a distribution company is entitled to charge. This price, when multiplied by the expected number of units to be distributed, determines the expected distribution revenues of the distribution company for the relevant year. The Regulator currently sets the Distribution Price Control Formula for five-year periods.

The current Distribution Price Control Formula permits Distribution Network Operators (“DNOs”), within a review period, to partially retain additional revenues due to increased distribution of units and to retain pound-for-pound increases in operating profit due to efficient operations and the reduction of expenses. The Regulator may reduce this increase in operating profit through a one-off price reduction in the first year of the new pricing regime, if it determines that it is not a function of efficiency savings, or, if genuine efficiency savings have been made, and it determines that customers should benefit through lower prices.

Under the electricity distribution price control agreed with OFGEM for the five year period ending 31 March 2010, WPD South Wales was allowed to increase its prices by 6.2 per cent. from 1 April 2005 and in each of the subsequent four years prices were allowed to increase by no more than the rate of inflation.

The electricity distribution price control for the five year period commencing on 1 April 2010 was agreed with OFGEM in December 2009. This covers the five year period until 31 March 2015. WPD South Wales will be allowed to increase its prices by an average of 6.2 per cent. plus inflation in each of the five years of this period. Amongst other technical changes, revenues will no longer vary with the volume of electricity delivered.

Distribution businesses must also meet the Guaranteed and Overall Standards of Performance, which are set by the Regulator to ensure an appropriate level of quality of supply. If a company fails to provide the level of service specified, it must make a fixed payment to the end user affected.

The Regulator introduced a Quality of Supply incentive scheme from 1 April 2002, which was amended to the Interruptions Incentive Scheme (“IIS”) from 1 April 2005. The current scheme strengthens the financial incentives on electricity distribution companies with respect to two quality of supply output measures: number of interruptions to supply and duration of interruptions and also includes an incentive relating to telephone response. Companies will be awarded or penalised up to 1.6 per cent. of their annual regulatory entitlement based on performance against the OFGEM targets.

## **Strategy**

Monitoring the satisfaction of end users connected to the network with the quality of supply provided is a key element of WPD South Wales’ strategy. WPD South Wales aims to meet or exceed all the performance criteria established by the Regulator. Network performance is measured by two key criteria:

availability: the number of customer minutes lost per connected customer (“CML”); and

security: the number of supply interruptions recorded per 100 connected customers (“CI”).

All licensees who operate a distribution system are required to report annually to OFGEM on their performance in maintaining system security and availability. The IIS incentive scheme financially incentivises all licensees, including WPD South Wales with respect to both key measures of supply delivered to customers. OFGEM also incentivises the quality of telephone response the customer receives when they contact the licensees, which is assessed by a customer survey carried out on a monthly basis.

In the year 2008/09, the reported adjusted minutes lost per customer was 36.8 minutes. This surpasses the regulatory target of 72.2 minutes. WPD South Wales’ reported adjusted interruptions per 100 customers was 66.1 compared to a target of 95.3 interruptions per 100 customers. In addition to this 88.7 per cent. of customers off supply in South Wales as a result of a High Voltage (“HV”) fault were restored within one hour of a fault occurring. These figures place the WPD Group as among the best performers of any of the UK DNOs.

The watchdog group, the Gas and Electricity Consumer Council (known as “energywatch”), had the role of complaint handling and customer representation. Until 30 September 2008, when energywatch was disbanded, energywatch had received no complaints in respect of WPD South Wales since 2003. Energywatch was replaced by The Energy Ombudsman with effect from 1 October 2008. WPD South Wales has received no complaints from The Energy Ombudsman. On a national basis by DNO the average number of complaints per 100,000 customers received by The Energy Ombudsman in the period to 31 December 2009 was 0.52. The WPD Group has maintained its position as number one for fewest complaints to either energywatch or its successor.

## **End Users**

The economy of South Wales has a substantial manufacturing sector that helps contribute to GDP of the region. It has a large concentration of electronic, oil refining, steel production, aluminium production and car part production industries. WPD South Wales’ largest end users, the HV and Extra High Voltage (“EHV”) connected customers of which there were approximately 646 as of 31 March 2009, accounted for almost 41 per cent. of total electricity units distributed in 2008/09.

The end users are customers of licensed supply businesses, which in turn are the customers of the distribution business. The energy supply division of Scottish & Southern Energy plc is the largest of WPD South Wales’ distribution customers. For the year 2008/09, sales to the energy supply division of Scottish & Southern Energy plc represented approximately 45 per cent. of the revenues of WPD South Wales’ distribution business.

The following table sets out details of WPD South Wales’ end users, units distributed and distribution revenues categorised by their average annual demand:

## Distribution Business

	Distribution Customers			Electricity Units Distributed			Revenues <sup>(4)</sup>
	Number <sup>(1)</sup>	% of of Total	5-year CAGR <sup>(2)</sup>	Volume (TWh) <sup>(3)</sup>	% of Total	5-year CAGR <sup>(2)</sup>	% of Total
LV customers .....	1,088,243	100%	0.2%	7.342	59%	0.5%	84%
HV/EHV customers....	646	0%	3.5%	5.012	41%	-3.0%	16%
<b>Total</b> .....	<b>1,088,889</b>	<b>100%</b>	<b>0.2%</b>	<b>12.354</b>	<b>100%</b>	<b>-1.0%</b>	<b>100%</b>

Note:

- (1) At 31 March 2009.
- (2) Represents the compound annual growth rate ("CAGR") for the period from 1 April 2004 to 31 March 2009.
- (3) In terawatt hours for the year 2008/09.
- (4) For the year 2008/09.

## Distribution Facilities

Electricity is transported across National Grid Electricity Transmission plc's transmission system at 400kV or 275kV to 9 grid supply points connected to WPD South Wales' distribution network, where it is transformed to 132kV and enters WPD South Wales' distribution system. Substantially all electricity that enters WPD South Wales' system is received at these 9 grid supply points.

WPD South Wales' electricity distribution network (excluding service connections to end users) includes overhead lines and underground cables at the operating voltage levels and approximate lengths indicated in the table below:

### Operating Voltage

<u>Overhead Lines</u>	<u>Overhead Lines</u>	<u>Underground Cables</u>
	<i>(Circuit Kilometres)</i>	
132kV .....	1,180	93
66kV .....	350	8
33kV .....	1,229	396
11kV .....	12,202	5,444
480 or 415/240v.....	3,184	10,859
<b>Total</b> .....	<b>18,145</b>	<b>16,800</b>

In addition to the circuits referred to above, WPD South Wales' distribution facilities also include approximately:

	<u>Number</u>	<u>Aggregate Capacity (mega volt amperes)</u>
<b>Transformers</b>		
132kV/lower voltages .....	129	6,040
33kV or 66kV/11kV or 6.6kV .....	281	3,936
11kV or 6.6kV/lower voltages.....	39,602	4,777
<b>Substations</b>		
132kV/lower voltages .....	77	
33kV or 66 kV//11kV or 6.6kV .....	198	
11kV or 6.6kV/415v or 240v (Ground) .....	8,523	
11kV or 6.6kV/415v or 240v (Pole) .....	31,195	

As at 31 March 2009, approximately half the substations in WPD South Wales were held freehold, with the balance held on leases that had security of tenure under the Landlord and Tenant Act 1954.

Operation and control of WPD South Wales' distribution system is continuously monitored and coordinated from a control centre located in Cardiff. Electricity is received by end users at various voltages depending upon their requirements. At 31 March 2009, WPD South Wales' distribution system was connected to approximately 1.09 million end users.

### **Employee Relations**

During the year 2008/09, the average number of employees of WPD South Wales was 885. There were no events during the year 2008/09 that would cause WPD South Wales to believe that its relations with its employees are not favourable.

The WPD Group places considerable value on the involvement of its employees in its affairs. Staff are kept informed of the WPD Group's aims, objectives, performance and plans and their effect on them as employees through newsletters, regular team briefings and other meetings, as well as through the WPD Group's in-house journal. Formal meetings are held regularly between senior managers and representatives of staff and their unions to discuss matters of common interest. A series of road show presentations by the directors each year ensure that all staff are aware of, and can contribute to, the WPD Group's corporate goals.

### **Properties**

WPD South Wales has network land and buildings.

As at 31 March 2009, WPD South Wales had interests in approximately 9,156 network properties, principally comprising substation sites.

As at 31 March 2009, the net book value of WPD South Wales' freehold properties was £44.8 million as compared to £38.8 million as at 31 March 2008.

## Management

WPD South Wales is managed by a Board of Directors comprising the following individuals:

<u>Name</u>	<u>Position</u>	<u>Principal non-Group activities</u>
R A Symons	Chief Executive	None
D G Harris	Resources and External Affairs Director	None
D C S Oosthuizen	Finance Director	None
R L Klingensmith	Non-executive Director	President PPL Global

The business address of each of the Directors is Avonbank, Feeder Road, Bristol BS2 0TB. No Director has any actual or potential conflict of interest between his duties to WPD South Wales and his private interests and/or other duties.

## Taxation

**The comments below are of a general nature based on the Issuer's understanding of the current United Kingdom law and HM Revenue & Customs published practice relating to certain aspects of United Kingdom taxation and are not intended to be exhaustive. These comments do not necessarily apply where the interest on the Notes is deemed for tax purposes to be income of any person other than the holder of the Note or Coupon. They relate only to the position of persons who are the absolute beneficial owners of the Notes and Coupons and do not apply to certain classes of persons such as dealers and persons connected with the Issuer (to whom special rules may apply). Prospective Noteholders should be aware that the particular terms of issue of any series of Notes may affect the tax treatment of that and other series of Notes and that the United Kingdom Tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. The following is a general guide and should be treated with appropriate caution. Any Noteholders who are in any doubt as to their tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult their professional advisers.**

### Interest

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

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

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

Noteholders may wish to note that, in certain circumstances, HM Revenue & Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder, or who either pays amounts payable on the redemption of Notes which constitute deeply discounted securities as defined in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HM Revenue & Customs published practice indicates that HM Revenue & Customs will not exercise the power referred to above to require this information in respect of such amounts payable on redemption of such Notes where such amounts are paid on or before 5 April 2010. Information so obtained may, in certain circumstances, be exchanged by HM Revenue & Customs with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

Interest on the Notes constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding for or on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a



Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

Noteholders should note that the provision relating to additional amounts referred to in “Terms and Conditions of the Notes — Taxation” would not apply if HM Revenue & Customs sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double tax treaty.

### **EU Directive on the Taxation of Savings Income**

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

Investors should note that the European Commission has announced proposals to amend this Directive. If implemented in their current form, the proposed amendments would, *inter alia*, extend the scope of the Directive to (i) payments made through certain intermediate structures (whether or not established in a Member State) for the ultimate benefit of an EU individual (or certain other persons established in a Member State), and (ii) a wider range of income equivalent to interest.

### **United Kingdom Corporation Tax Payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Notes (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

### **Other United Kingdom Tax Payers**

#### *Taxation of Chargeable Gains*

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

#### *Accrued Income Scheme*

On a disposal of Notes by a Noteholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

### **United Kingdom Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or Stamp Duty Reserve Tax is payable on the issue or on a transfer by delivery of a Note or on its redemption.

## **Subscription and Sale**

Deutsche Bank AG, London Branch, HSBC Bank plc, Banco Santander, S.A. and National Australia Bank Limited (together, the “Managers”) have, pursuant to a Subscription Agreement (the “Subscription Agreement”) dated 19 March 2010, agreed with the Issuer to subscribe for the Notes at the issue price of 99.042 per cent. of the principal amount of Notes. The Issuer has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### ***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.

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

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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.

### ***United Kingdom***

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***General***

Each of the Managers has acknowledged that no action has been or will be taken in any jurisdiction by the Issuer that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each of the Managers has agreed that it will comply to the best of its knowledge and belief with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus or any other offering or publicity material relating to the Notes, in all cases at its own expense.

## General Information

1. The issue of the Notes was duly authorised by resolutions of the Board of Directors of the Issuer dated 25 February 2010 and 12 March 2010 respectively. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.
2. The admission of the Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that official listing will be granted on or about 23 March 2010 subject only to the issue of the Temporary Global Note. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. The Issuer estimates that the total expenses related to the admission to trading of the Notes will be approximately £17,975.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for the Notes is XS0496999219 and the Common Code is 049699921.
4. The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.
5. There has been no significant change in the financial or trading position of the Issuer since 31 March 2009 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 March 2009.
6. The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.
7. Ernst & Young LLP, the current auditor of the Issuer, is registered to carry out audit work by the Institute of Chartered Accountants of England and Wales. Ernst & Young LLP does not have any material interest in the Issuer. The address of Ernst & Young LLP is 1 Bridewell Street, Bristol, BS1 2AA.
8. The Notes and Coupons will contain 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."
9. For the period of 12 months starting on the date on which this Prospectus is made available to the public, copies of the following documents will be available for inspection, during usual business hours on any weekday (Saturdays and public holidays excepted), from the registered office of the Issuer and from the specified office of the Paying Agent:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the audited non-consolidated financial statements of the Issuer in respect of the financial years ended 31 March 2009 and 2008, together with the audit reports prepared in connection therewith;
  - (c) the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons; and
  - (d) a copy of this Prospectus.

The Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/prices-and-news/prices-news/home.htm>.
10. The yield of the Notes is 5.818 per cent. per annum. The yield is calculated as at the issue date of the Notes on the basis of the issue price. It is not an indication of future yield.
11. The Issuer does not intend to provide any post-issuance information in relation to the Notes.

**THE ISSUER**

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