

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page (the “Prospectus”), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SECURITIES DESCRIBED IN THE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER RELEVANT JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT IN A TRANSACTION NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: You have been sent the attached Prospectus at your request and by accepting the e-mail and by accepting this Prospectus you shall be deemed to have represented to Banco Bilbao Vizcaya Argentaria, S.A., Barclays Bank PLC, BNP Paribas, Credit Suisse Securities (Europe) Limited, Mitsubishi UFJ Securities International plc and The Royal Bank of Scotland plc, being the Managers referred to in the Prospectus and senders of the attached, (i) that you are not (or, if you are acting for another person, such person is not) a U.S. person, (ii) that you are not (or, if you are acting on behalf of another person, such person is not) located in the United States of America, its territories or possessions, any State of the United States or the District of Columbia (where “possessions” include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent (and if you are acting on behalf of another person, such person consents) to this delivery by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any Manager or any affiliate of a Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Manager or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Scottish and Southern Energy plc or any Manager, nor any person who controls any Manager nor any director, officer, employee, agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from any Manager.

Scottish and Southern Energy plc

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

€500,000,000 Capital Securities

£750,000,000 Capital Securities

Issue Price: 100 per cent. in respect of the Euro Securities
100 per cent. in respect of the Sterling Securities

The €500,000,000 Capital Securities (the “Euro Securities”) and the £750,000,000 Capital Securities (the “Sterling Securities”) and together with the Euro Securities, the “Securities” and each, a “Tranche”) will be issued by Scottish and Southern Energy plc (the “Issuer”) on 20 September 2010 (the “Issue Date”). The Euro Securities will bear interest from (and including) the Issue Date to (but excluding) 1 October 2015 at a rate of 5.025 per cent. per annum, payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to €51.76 per €1,000 in principal amount of the Euro Securities. Thereafter, unless previously redeemed, the Euro Securities will bear interest from (and including) 1 October 2015 to (but excluding) 1 October 2020 at a rate per annum which shall be 3.150 per cent. above the then prevailing euro 5 year Swap Rate (as defined in the Terms and Conditions of the Euro Securities (the “Euro Conditions”)), payable annually in arrear on 1 October in each year. From (and including) 1 October 2020, the Euro Securities will bear interest at a rate reset annually of 4.150 per cent. per annum above the Euro interbank offered rate for 12-month deposits in euro, payable annually in arrear on the Interest Payment Date (as defined in the Euro Conditions) falling in October in each year, all as more particularly described in “Terms and Conditions of the Euro Securities — Interest Payments”. The Sterling Securities will bear interest from (and including) the Issue Date to (but excluding) 1 October 2015 at a rate of 5.453 per cent. per annum, payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to £56.17 per £1,000 in principal amount of the Sterling Securities. Thereafter, unless previously redeemed, the Sterling Securities will bear interest from (and including) 1 October 2015 to (but excluding) 1 October 2020 at a rate per annum which shall be the annualised equivalent of 3.249 per cent. above the then prevailing sterling 5 year Swap Rate (as defined in the Terms and Conditions of the Sterling Securities (the “Sterling Conditions”) and together with the Euro Conditions, the “Conditions”)), payable annually in arrear on 1 October in each year. From (and including) 1 October 2020, the Sterling Securities will bear interest at a rate reset annually of 4.249 per cent. per annum above the London interbank offered rate for 12-month deposits in pounds sterling, payable annually in arrear on the Interest Payment Date (as defined in the Sterling Conditions) falling in October in each year, all as more particularly described in “Terms and Conditions of the Sterling Securities — Interest Payments”.

If the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) thereof following the occurrence of a Change of Control Event (as defined in the relevant Conditions), the then prevailing interest rate per annum (and each subsequent interest rate per annum otherwise determined in accordance with the relevant Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred, see “Terms and Conditions of the Euro Securities — Interest Payments — Step-up after Change of Control” and “Terms and Conditions of the Sterling Securities — Interest Payments — Step-up after Change of Control”, respectively.

The Issuer may, at its discretion, elect to defer all or part of any payment of interest on the Securities, subject to limited exceptions, as more particularly described in “Terms and Conditions of the Euro Securities — Optional Interest Deferral” and “Terms and Conditions of the Sterling Securities — Optional Interest Deferral”, respectively. Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute Arrears of Interest (as defined in the relevant Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the relevant Conditions. Notwithstanding this, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates: (i) the date on which a Compulsory Interest Payment Event (as defined in the relevant Conditions) occurs; (ii) the date on which the Securities are redeemed (in whole, but not in part) or repaid in accordance with the relevant Conditions; or (iii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities (as defined in Condition 7 thereof) in accordance with Condition 7 thereof, all as more particularly described in “Terms and Conditions of the Euro Securities — Optional Interest Deferral — Arrears of Interest” and “Terms and Conditions of the Sterling Securities — Optional Interest Deferral — Arrears of Interest”, respectively.

The Securities will be perpetual securities in respect of which there is no fixed redemption date but each Tranche shall, be redeemable (at the option of the Issuer) in whole but not in part on the First Call Date, the Second Call Date or any Interest Payment Date (each such term as defined in the relevant Conditions) thereafter, at the principal amount of the relevant Securities, together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest. In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event (each such term as defined in the relevant Conditions), each Tranche shall be redeemable (at the option of the Issuer) in whole but not in part at the prices set out, and as more particularly described, in “Terms and Conditions of the Euro Securities — Redemption” and “Terms and Conditions of the Sterling Securities — Redemption”, respectively.

The Issuer may, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event, at any time, without the consent of the holders of the relevant Securities, either (i) substitute all, but not some only, of such Securities for, or (ii) vary the terms of such Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case in accordance with Condition 7 thereof and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 thereof.

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

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

Applications will be made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) for the Securities to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Securities to be admitted to trading on the London Stock Exchange’s Regulated Market (the “Market”). References in this Prospectus to the Securities being “listed” (and all related references) shall mean that the Securities have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The Securities of each Tranche will initially be represented by a temporary global security (each a “Temporary Global Security”) and together with the Temporary Global Security in respect of the other Tranche, the “Temporary Global Securities”), without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on or about the Issue Date. Each Temporary Global Security will be exchangeable for interests in a permanent global security (each a “Permanent Global Security”) and together with the Permanent Global Security in respect of the other Tranche, the “Permanent Global Securities”) and together with the Temporary Global Securities, the “Global Securities”), without interest coupons or talons, on or after a date which is expected to be 30 October 2010, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of (i) €50,000 and integral multiples of €1,000 in excess thereof up to, and including, €99,000 in respect of the Euro Securities and (ii) £50,000 and integral multiples of £1,000 in excess thereof up to, and including, £99,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in it. No definitive Securities will be issued with a denomination above €99,000 in respect of the Euro Securities and above £99,000 in respect of the Sterling Securities. See “Summary of Provisions relating to the Securities while in Global Form”.

The Securities are expected to be rated BBB by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s”) and Baa2 by Moody’s Investors Service, Inc. (“Moody’s”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

JOINT STRUCTURING ADVISERS AND JOINT LEAD MANAGERS

BARCLAYS CAPITAL

THE ROYAL BANK OF SCOTLAND

JOINT LEAD MANAGERS

BNP PARIBAS

CREDIT SUISSE

CO-MANAGERS

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

mitsubishi UFJ SECURITIES INTERNATIONAL PLC

The date of this Prospectus is 16 September 2010

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, the Issuer and its subsidiaries taken as a whole and the Securities which, according to the particular nature of the Issuer and the Securities, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge 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 the documents which are incorporated herein by reference (see “Documents Incorporated by Reference”).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers (as defined in “Subscription and Sale” below) to subscribe or purchase, any of the Securities. The distribution of this Prospectus and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

For a description of further restrictions on offers and sales of Securities and distribution of this Prospectus, see “Subscription and Sale” below.

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

To the greatest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer or the issue and offering of the Securities. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933 (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Securities may not be offered, sold or delivered within the United States or to U.S. persons.

Unless otherwise specified or the context requires, references to “£”, “**sterling**”, “**pounds sterling**” and “**pence**” are to the lawful currency of the United Kingdom, references to “\$” and “**dollars**” are to the lawful currency of the United States of America, references to “**euro**” and “€” are to the lawful currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended and references to “**yen**” and “**JPY**” are to the lawful currency of Japan.

In connection with the issue of each Tranche, The Royal Bank of Scotland plc (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot the relevant Securities or effect transactions with a view to supporting the market price of the relevant Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Securities and 60 days after the date of the allotment of the relevant Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the audited consolidated financial statements of the Issuer for the financial years ended 31 March 2009 and 31 March 2010, respectively, together in each case with the audit report thereon, and which are included on pages 76 to 142 of the 2009 Annual Report of the Issuer and pages 77 to 149 of the 2010 Annual Report of the Issuer, respectively. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer and viewed on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricesnews/marketnews/.

OVERVIEW

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

Issuer:	Scottish and Southern Energy plc.
Trustee:	BNY Corporate Trustee Services Limited.
Principal Paying Agent:	The Bank of New York Mellon, London Branch.
Issue Size:	€500,000,000 of Euro Securities and £750,000,000 of Sterling Securities.
Issue Date:	20 September 2010.
No fixed maturity:	The Securities will be perpetual securities in respect of which there is no fixed redemption date.
Interest:	The Euro Securities will bear interest from (and including) the Issue Date to (but excluding) 1 October 2015 at a rate of 5.025 per cent. per annum, payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to €51.76 per €1,000 in principal amount of the Euro Securities. Thereafter, unless previously redeemed, the Euro Securities will bear interest from (and including) 1 October 2015 to (but excluding) 1 October 2020 at a rate per annum which shall be 3.150 per cent. above the then prevailing euro 5 year Swap Rate, payable annually in arrear on 1 October in each year. From (and including) 1 October 2020, the Euro Securities will bear interest at a rate reset annually of 4.150 per cent. per annum above the Euro interbank offered rate for 12-month deposits in euro, payable annually in arrear on the Interest Payment Date falling in October in each year, all as more particularly described in “Terms and Conditions of the Euro Securities — Interest Payments”. The Sterling Securities will bear interest from (and including) the Issue Date to (but excluding) 1 October 2015 at a rate of 5.453 per cent. per annum, payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to £56.17 per £1,000 in principal amount of the Sterling Securities. Thereafter, unless previously redeemed, the Sterling Securities will bear interest from (and including) 1 October 2015 to (but excluding) 1 October 2020 at a rate per annum which shall be the annualised equivalent of 3.249 per cent. above the then prevailing sterling 5 year Swap Rate, payable annually in arrear on 1 October in each year. From (and including) 1 October 2020, the Sterling Securities will bear interest at a rate reset annually of 4.249 per cent. per annum above the London interbank offered rate for 12-month deposits in pounds sterling, payable annually in arrear on the Interest Payment Date falling in October in each year, all as more particularly described in “Terms and Conditions of the Sterling Securities — Interest Payments”. If the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) thereof following the occurrence of a Change of Control Event, the then prevailing interest rate per annum (and each subsequent interest rate per annum otherwise determined in

accordance with the relevant Conditions) shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred, see “Terms and Conditions of the Euro Securities — Interest Payments — Step-up after Change of Control” and “Terms and Conditions of the Sterling Securities — Interest Payments — Step-up after Change of Control”, respectively.

Interest Payment Dates:

Interest payments in respect of the Securities will be payable annually in arrear on 1 October in each year from (and including) 1 October 2011 (in respect of a long first coupon) to (and including) 1 October 2020 and thereafter, subject to adjustment for non-business days, on the Interest Payment Date falling in October in each year from (and including) the Interest Payment Date falling in October 2021.

Status:

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

Subordination:

The rights and claims of the Holders and the Couponholders will be subordinated to the claims of holders of all Senior Obligations in that if at any time an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a “successor in business” (as defined in the Trust Deed) of the Issuer) or an administrator of the Issuer is appointed and such administrator gives notice that it intends to declare and distribute a dividend, the rights and claims of the Holders and the Couponholders will be subordinated in accordance with Condition 3(a) thereof. Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

Optional Interest Deferral:

The Issuer may, at its discretion, elect to defer all or part of any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date unless, in the three months immediately preceding the relevant Interest Payment Date, a Compulsory Interest Payment Event has occurred in which case any such election to defer shall have no force or effect. Any amounts so deferred, together with further interest accrued thereon (at the interest rate per annum prevailing from time to time), shall constitute Arrears of Interest. The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time.

Notwithstanding the above, the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the date on which a Compulsory Interest Payment Event occurs;
- (ii) the date on which the Securities are redeemed (in whole, but not in part) or repaid in accordance with the relevant Conditions; or
- (iii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities in accordance with Condition 7 thereof,

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

If none of the events referred to in paragraph (i), (ii) or (iii) takes place prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole, but not in part) on the next following Interest Payment Date.

Optional Redemption:

The Issuer may redeem all, but not some only, of the relevant Securities on the First Call Date, the Second Call Date or any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Special Event Redemption:

If a Special Event has occurred and is continuing, the Issuer may elect to redeem all, but not some only, of the relevant Securities at any time at their (i) Make Whole Redemption Price (in the case of an Accounting Event, a Capital Event or a Tax Event where any such redemption occurs prior to the Second Call Date) or (ii) principal amount (in the case of an Accounting Event, a Capital Event or a Tax Event where any such redemption occurs on or after the Second Call Date or in the case of a Substantial Repurchase Event or a Withholding Tax Event where any such redemption occurs at any time), in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Change of Control:

If a Change of Control Event has occurred and is continuing, the Issuer may elect to redeem all, but not some only, of the relevant Securities at any time at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

Substitution or Variation instead of Special Event Redemption:

The Issuer may, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event, at any time, without the consent of the Holders, either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case in accordance with Condition 7 thereof and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 thereof.

Event of Default:

If a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of any Tranche and which is due, then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the relevant Securities and the Coupons and the Trustee at its sole discretion may, or shall, if so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of such Securities, subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction, institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that such Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

Additional Amounts:	Payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, or on account of, taxes of the United Kingdom, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts may be payable by the Issuer, subject to certain exceptions as are more fully described under “Terms and Conditions of the Euro Securities — Taxation” and “Terms and Conditions of the Sterling Securities — Taxation”, respectively.
Replacement Intention:	The Issuer intends (but is not obliged to ensure) that, to the extent that the relevant Securities provide the Issuer with “equity credit” for rating purposes by any Rating Agency immediately prior to any redemption effected in accordance with the relevant Conditions, it will repay the principal amount of such Securities to be so redeemed with the net proceeds received by the Issuer from the issuance, within a period of 12 months prior to the date set for such redemption, of securities for which the Issuer will receive the same, or higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by such Rating Agency as at the time of such redemption.
Replacement Covenant:	The Issuer shall, in a separate agreement, covenant in favour of the holders of a class of outstanding long-term unsecured debt instruments issued (directly or indirectly) by the Issuer and selected by it from time to time (the “Covered Debt”) that, from the first business day following, but not including, the First Call Date and until the termination of such agreement (in any event on the first business day immediately following the Interest Payment Date falling in October 2040 or (subject to certain conditions) earlier), the Issuer shall not redeem any of the Securities except with the net proceeds from the issuance, within a period of 12 months prior to the date set for such redemption, of securities for which the Issuer will receive the same, or higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by the relevant Rating Agency at the time of such redemption, subject to certain exceptions. This places certain restrictions on the Issuer’s ability to redeem the relevant Securities after the First Call Date, notwithstanding any other provisions in the Conditions, all as more fully described in “General Information”.
Form:	The Securities will be in bearer form and each Tranche will initially be represented by a Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Each Temporary Global Security will be exchangeable for interests in a Permanent Global Security, without interest coupons or talons, on or after a date which is expected to be 30 October 2010, upon certification as to non-U.S. beneficial ownership. Each Permanent Global Security will be exchangeable for definitive Securities in bearer form in the denominations of (i) €50,000 and integral multiples of €1,000 in excess thereof up to, and including, €99,000 in respect of the Euro Securities and (ii) £50,000 and integral multiples of £1,000 in excess thereof up to, and including, £99,000 in respect of the Sterling Securities, in each case in the limited circumstances set out in it. No definitive Securities will be issued with a denomination above €99,000 in respect of the Euro Securities and above £99,000 in respect of the Sterling Securities. See “Summary of Provisions relating to the Securities while in Global Form”.

Denominations:	€50,000 and integral multiples of €1,000 in excess thereof up to, and including, €99,000 in respect of the Euro Securities and £50,000 and integral multiples of £1,000 in excess thereof up to, and including, £99,000 in respect of the Sterling Securities.
Listing and Admission to Trading:	Applications will be made to the UK Listing Authority for the Securities to be admitted to the Official List and to the London Stock Exchange for such Securities to be admitted to trading on the Market.
Governing Law:	English law save for certain provisions relating to subordination which shall be governed by Scots law.
Ratings:	The Securities are expected to be rated BBB by Standard & Poor's and Baa2 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Use of Proceeds:	The net proceeds of the issue of the Securities will be applied by the Issuer for general corporate purposes.
Selling Restrictions:	The United States, the United Kingdom and Japan. See "Subscription and Sale". Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.
Risk Factors:	Prospective investors should carefully consider the information set out in "Risk Factors" in conjunction with the other information contained or incorporated by reference in this Prospectus.
ISIN:	XS0541656509 in respect of the Euro Securities and XS0540658688 in respect of the Sterling Securities.
Common Code:	054165650 in respect of the Euro Securities and 054065868 in respect of the Sterling Securities.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Securities. 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.

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

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

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

Regulatory Risk

The electricity and gas distribution and electricity transmission operations of the SSE Group (as defined in "Description of the Issuer") are subject to direct regulation by the Gas and Electricity Markets Authority (the "**Authority**"). Decisions regarding, for example, the levels of permitted revenues, licence renewals, modifications to the terms and conditions of licences in issue, and constraints on business development opportunities which may be taken by the Authority may all potentially adversely impact on the operations and financial position of the SSE Group. Additionally, failure to operate the networks properly could lead to compensation payments or penalties, as could any failure to make capital expenditure in line with agreed programmes that in turn leads to deterioration of the networks.

In particular, there can be no assurance that future price controls will permit the generation of sufficient revenues to enable the Issuer to meet its payment obligations under the Securities, and there can also be no assurance that net operating revenues generated by the SSE Group will be sufficient to enable the Issuer to meet such payment obligations. Any failure by any holder of a licence within the SSE Group to comply with the terms of their respective licences may lead to the making of an enforcement order by The Office of Gas and Electricity Markets ("**Ofgem**") that could have a material adverse impact on the Issuer and/or the SSE Group.

Plant and Network Performance

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

Commodity Price Risk, Procurement Risk and Security of Supply

In order to support its core business activities, it is necessary for the SSE Group to purchase significant quantities of fuel, commodities, resources and other products and services. Although it routinely enters into long-term contracts to protect its commercial position, significant price rises and/or failure to secure key materials could have a significant adverse affect on its operations and/or financial position of the SSE Group.

Competition and Market Risks

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

Health and Safety

Many key activities relating to electricity and gas operations are by their nature potentially hazardous. Ensuring the health and safety of its employees, contractors and the general public is a core value of the SSE Group, but nevertheless a failure to comply with legislation or the occurrence of a preventable incident that results in injury or death could result in prosecution by the Health and Safety Executive (“HSE”).

Political, Legal and Compliance Risks

The SSE Group must at all times fully comply with its obligations in respect of all legal, regulatory, environmental and corporate governance requirements. Failure to do so may result in adverse publicity, fines, loss of licence or legal proceedings being commenced against members of the SSE Group. Additionally future changes in law and/or political direction could adversely impact on the SSE Group’s market position, financial position or competitiveness.

Strategic Risk

It is the responsibility of the Boards of Directors of the Issuer to consider carefully strategic issues including capital investment in merger projects, acquisitions, disposals, investments, market positioning, climate change, sustainable development and new technologies. Failure to do so could adversely affect the SSE Group’s financial position, market position or reputation.

Financial Risks

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

Environmental Risks

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

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

Energy Volumetric Risk and Other Weather Related Risks

Changes in temperature can affect demand for power and gas and consequently impact the price of these commodities and the number of units distributed. Additionally rainfall and/or snow melt conditions impact on hydro electric generation output, and wind conditions impact on wind generation output. Extreme weather conditions may result in network damage, which in turn is likely to result in disruption to electricity supply.

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

Reliance on IT Systems

The SSE Group relies on a number of key IT systems to manage its various business activities, including plant operation, networks, customer service activities, financial activities and energy trading operations. Failure to plan and execute suitable contingencies in the event of disruption of critical IT systems could materially adversely affect the Issuer’s operations. The SSE Group has robust business continuity/disaster recovery plans in place to cover such eventualities and regularly tests these plans, but no assurance can be given to their effectiveness going forward.

Notwithstanding anything contained in this risk factor, this risk factor should not be taken as implying that either the Issuer or any of the entities within the SSE Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Pension Funds Risk

The SSE Group is directly responsible for two defined benefit pension schemes — the Scottish Hydro Electric Pension Scheme and the Southern Electric Pension Scheme. These schemes have been closed to new employees since 1999, and new recruits since then have been offered instead defined contribution pension arrangements. Adverse changes in the valuation of assets and/or liabilities in the defined benefit schemes may occur due to both market movements and changes in the assumptions used to calculate the funding levels of such schemes. This in turn may result in SSE being required to make higher ongoing contributions and/or make deficit repair payments which could be material.

Recruitment and Retention of Staff

The SSE Group is reliant on the employment of competent and qualified staff in all areas of its business. Failure to attract or retain key staff could materially adversely affect SSE Group operations.

Capital Investment in Major Projects

In March 2008, SSE announced it was undertaking a five-year capital investment programme for the period to March 2013 and projected to total around £6.7 billion. The principal focus of the investment programme is renewable energy. At the same time, significant investment is also taking place in thermal generation, electricity networks and in a number of other areas, such as gas storage. SSE, through its 50 per cent. equity interest in SGN (as defined in “Description of the Issuer”), is also making a significant investment in regulated gas networks. These capital investments could potentially weaken the SSE Group’s consolidated financial profile in the shorter term, as capital expenditure on major projects is expected to exceed revenues generated by new operational assets in the business in the first few years following expenditure.

Factors which are material for the purpose of assessing the market risks associated with the Securities ***The Securities may not be a suitable investment for all investors***

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

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

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

Risks related to the Securities generally

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

Modification, Waiver and Substitution

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

The Conditions and the Trust Deed will also provide that the Trustee may, without the consent of Holders, agree to (i) any modification of the Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of, any of the Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11), (iii) the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities in place of the Issuer (or any previous Substituted Obligor (as defined in Condition 14)) as a new principal debtor under the Trust Deed and the relevant Securities, Coupons and Talons or (iv) either (a) substitute all, but not some only, of the relevant Securities for, or (b) vary the terms of the relevant Securities with the effect that they remain or become, as the case may be, Qualifying Securities, in each case upon the occurrence of an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event and subject to the receipt by the Trustee of the certificate of the directors of the Issuer referred to in Condition 8 thereof.

European Monetary Union

If the United Kingdom joins the European Monetary Union while any Sterling Security is still outstanding, there is no assurance that this would not adversely affect investors in the Securities. It is possible that while any Security is still outstanding the United Kingdom may become a participating Member State and that the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Sterling Securities may become payable in euro (ii) the law may allow or require such Sterling Securities to be re-denominated into euro and additional measures to be taken in respect of such Sterling Securities; and (iii) there may no longer be available published or displayed rates for deposits in sterling used to determine the rates of interest on such Sterling Securities or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Sterling Securities.

EU Savings Directive

Under EU Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (and similar income) paid by a person within its jurisdiction to or for an individual resident or certain limited types of entity 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) with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the relevant Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Security as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not

obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

On 13 November 2008, the European Commission published a proposal for amendments to the Directive. The proposal has been approved by the European Parliament and is under discussion by the European Council. If implemented, the changes may amend or broaden the scope of the requirements described above.

Change of law

The Conditions will be based on English law and, in respect of Condition 3(a) only, Scots law in effect as at the Issue Date. No assurance can be given as to the impact of any possible judicial decision or change to English law or, as the case may be, Scots law or any administrative practice thereof after the date of the issue of the Securities.

The Securities will be perpetual securities

The Securities will be perpetual securities in respect of which there is no fixed redemption date by which the Issuer would be under the obligation to redeem the Securities. See “Terms and Conditions of the Euro Securities — Redemption” and “Terms and Conditions of the Sterling Securities — Redemption”, respectively.

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

The relevant Securities will be redeemable, at the option of the Issuer, in whole but not in part on the First Call Date, the Second Call Date or any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event, the Issuer shall have the option to redeem, in whole but not in part, the relevant Securities at their (i) Make Whole Redemption Price (in the case of an Accounting Event, a Capital Event or a Tax Event where any such redemption occurs prior to the Second Call Date) or (ii) principal amount (in the case of an Accounting Event, a Capital Event or a Tax Event where any such redemption occurs on or after the Second Call Date or in the case of a Change of Control Event, a Substantial Repurchase Event or a Withholding Tax Event where any such redemption occurs at any time), in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. In the case of a Change of Control Event, in the event that the Issuer does not elect to redeem the relevant Securities, the then prevailing Interest Rate (as defined in the Conditions thereof), and each subsequent Interest Rate otherwise determined in accordance with Condition 4 thereof, on the such Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

Furthermore, if an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event occurs, then, subject to the provisions of Conditions 7 and 8, the Issuer may at any time, instead of giving notice to redeem the relevant Securities, substitute all, but not some only, of such Securities for, or vary the terms of such Securities so that they remain or become, as the case may be, Qualifying Securities.

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

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

Integral multiples of less than the specified denomination

The denominations of the Euro Securities are €50,000 and integral multiples of €1,000 in excess thereof, up to and including €99,000. The denominations of the Sterling Securities are £50,000 and integral multiples of £1,000 in excess thereof, up to and including £99,000, respectively. Therefore, it is possible

that the Securities may be traded in amounts in excess of £50,000 that are not integral multiples of €50,000 or, as the case may be, £50,000. In such a case, a Holder who, as a result of trading such amounts, holds a principal amount of less than €50,000 or, as the case may be, £50,000 will not receive a definitive Security in respect of such holding (should definitive Securities be printed) and would need to purchase a principal amount of Securities such that it holds an amount equal to one or more denominations. If definitive Securities are issued, Holders should be aware that definitive Securities which have a denomination that is not an integral multiple of €50,000 or, as the case may be, £50,000 may be illiquid and difficult to trade.

The Issuer's obligations under the Securities are subordinated

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

By virtue of such subordination, payments to a Holder will, in the events described in the relevant Conditions, only be made after all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder may therefore recover less than the holders of unsubordinated or other subordinated liabilities of the Issuer. Furthermore, the Conditions will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the relevant Securities which may be incurred or assumed by the Issuer from time to time, whether before or after the Issue Date. Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer in respect of, or arising under or in connection with, the Securities and each Holder shall, by virtue of his holding, be deemed to have waived all such rights of set-off, compensation or retention.

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

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

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

Any such deferral of interest payment shall not constitute a default for any purpose unless such payment is required in accordance with Condition 5(c) of the relevant Securities. Although the Issuer intends to pay all outstanding Arrears of Interest in respect of any Tranche on the fifth anniversary of the Interest Payment Date on which the relevant deferral of interest first arose, this is only a current intention, not an obligation of the Issuer. Therefore, there can be no assurance that deferred interest will be satisfied within such five year period.

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

The Issuer's right to redeem the Securities after the First Call Date is subject to compliance by the Issuer with the Replacement Capital Covenant.

At or around the time of issuance of the Securities, the Issuer will enter into a deed of replacement capital covenant (the "RCC") for the benefit of holders of the Covered Debt. This may limit the Issuer's ability to redeem the Securities, notwithstanding the Conditions thereof. See "General Information".

The RCC will provide that, subject to certain exceptions, the Issuer shall not redeem or repurchase any Securities between the first business day following, but not including, the First Call Date and the termination of the RCC (in any event on the Interest Payment Date falling in October 2040 or (subject to certain conditions) earlier), unless a certain amount of a certain class of qualifying financing instruments replaces the Securities redeemed or repurchased.

Accordingly, there could be circumstances in which it would be in the interests of both the Issuer and the Holders to redeem such Securities, but the Issuer will be restricted from doing so even if sufficient cash is available for the redemption, because the Issuer was not able to obtain proceeds from the issue or sale of such qualifying financing instruments as designated in the RCC.

Limited Remedies

The Conditions will provide that the Securities will be perpetual securities and there is therefore no obligation on the Issuer to repay principal on any given date. In addition, payments of interest on the Securities may be deferred in accordance with Condition 5(a) and interest will not therefore be due other than in the limited circumstances described in Condition 5(c).

The only event of default in the Conditions is if a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of the relevant Securities and which is due.

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

In addition, in the event that an order is made, or an effective resolution is passed, for the winding-up of the Issuer (otherwise than for the purposes of a solvent winding-up or substitution in place of the Issuer of a “successor in business” of the Issuer) or an administrator of the Issuer has been appointed and such administrator gives notice that it intends to declare and distribute a dividend, the claims of Holders will be subordinated to the claims of holders of all Senior Obligations as further described in Condition 3(a). Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings.

Risks related to the market generally

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

The secondary market generally

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

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

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

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 Securities are legal investments for it, (2) the Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE EURO SECURITIES

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

The issue of the €500,000,000 Capital Securities (the “**Securities**”, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Securities) of Scottish and Southern Energy plc (the “**Issuer**”) was authorised by a resolution of the board of directors of the Issuer passed on 22 July 2010 and a written resolution of the board of directors of the Issuer passed on 8 September 2010, respectively, and resolutions of a duly appointed committee of the board of directors of the Issuer passed on 27 August 2010 and 13 September 2010, respectively. The Securities are constituted by a trust deed (the “**Trust Deed**”) dated 20 September 2010 between the Issuer and BNY Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Securities (the “**Holders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities and of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)) and the Talons appertaining to Securities in definitive form. Copies of (i) the Trust Deed; and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 20 September 2010 relating to the Securities between the Issuer, The Bank of New York Mellon, London Branch as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being), The Bank of New York Mellon, London Branch as agent bank (the “**Agent Bank**”, which expression includes the Agent Bank for the time being) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1 **Form, Denomination and Title**

(a) **Form and Denomination**

The Securities are serially numbered and in bearer form in the denominations of €50,000 and integral multiples of €1,000 in excess thereof up to and including €99,000, each with Coupons and one Talon attached on issue. No definitive Securities will be issued with a denomination above €99,000. Securities of one denomination may not be exchanged for Securities of any other denomination.

(b) **Title**

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

2 **Status**

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Holders and the Couponholders are subordinated as described in Condition 3.

3 **Subordination**

(a) **General**

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a “successor in

business” (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or

- (ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

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

Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

(b) ***Set-off***

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

4 **Interest Payments**

(a) ***Interest Rate***

The Securities bear interest at the applicable Interest Rate from (and including) 20 September 2010 (the “**Issue Date**”) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities annually in arrear on each Interest Payment Date as provided in this Condition 4.

(b) ***Interest Accrual***

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 6 or the date of substitution or variation thereof pursuant to Condition 7, as the case may be, unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

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

more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Where it is necessary to compute an amount of interest in respect of any Security during any Interest Period commencing on or after the Second Call Date, such interest shall be calculated on the basis of the actual number of days in the relevant Interest Period divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

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

(c) ***First Fixed Interest Rate***

For the First Fixed Rate Interest Period, the Securities bear interest at the rate of 5.025 per cent. per annum (the “**First Fixed Interest Rate**”), payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to €51.76 per Calculation Amount.

(d) ***Second Fixed Interest Rate***

For the Second Fixed Rate Interest Period, the Securities bear interest at the 5 year Swap Rate plus 3.150 per cent. (the “**Second Fixed Interest Rate**”), all as determined by the Agent Bank and where:

“**5 year Swap Rate**” means the mid-swap rate as displayed on Reuters screen “ISDAFIX2” as at 11:00 a.m. (Central European time) (the “**Reset Screen Page**”) on the day falling two Business Days prior to the first day of the Second Fixed Rate Interest Period (the “**Reset Interest Determination Date**”).

In the event that the 5 year Swap Rate does not appear on the Reset Screen Page on the Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. “**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the “**Reset Reference Banks**”) to the Agent Bank at approximately 11:00 a.m. (Central European time) on the Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The “**5 year Swap Rate Quotations**” means the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of 5 years commencing on the First Call Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month EURIBOR rate (calculated on an Act/360 day count basis).

(e) ***Floating Interest Rate***

From (and including) the Second Call Date, the Securities will bear interest at a floating rate of interest (the “**Floating Interest Rate**”). The Floating Interest Rate in respect of each Interest Period commencing on or after the Second Call Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for 12-month deposits in euro as at 11.00 hours (Central European time) on such Interest Determination Date, as displayed on the display designated as page “EURIBOR01” on the Reuters Monitor Money Rates Service (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Interest

Rate for the relevant Interest Period shall be such offered rate as determined by the Euro-zone Agent Bank plus the Margin.

- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal Euro-zone office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the Euro-zone interbank market for 12-month deposits in euro as at 11.00 hours (Central European time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the relevant Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.
- (iii) If on any Interest Determination Date to which the provisions of Condition 4(e)(ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the relevant Interest Period shall be the rate which the Agent Bank determines to be the aggregate of (A) the Margin and (B) the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the euro lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Interest Determination Date, to leading banks in London for a period of 12 months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Interest Rate for such Interest Period shall be the Floating Interest Rate in effect for the last preceding Interest Period to which one of the preceding sub-paragraphs of this Condition 4(e) shall have applied.

(f) ***Determination of Floating Interest Rate and Calculation of Floating Interest Amounts***

The Agent Bank will, as soon as practicable after 11.00 hours (Central European time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest payable in respect of a Calculation Amount on the Interest Payment Date for that Interest Period (the “**Floating Interest Amount**”).

(g) ***Publication of Second Fixed Interest Rate, Floating Interest Rate and Floating Interest Amounts***

The Issuer shall cause notice of the Second Fixed Interest Rate and the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period, the Floating Interest Amount per Calculation Amount and the relevant date scheduled for payment to be given to the Trustee, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 17, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Floating Interest Amount, the Floating Interest Rate, the Second Fixed Interest Rate and the date scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(h) ***Agent Bank and Reference Banks***

With effect from the First Call Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks or, as the case may be, Reference Banks provided above where the Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank or any Reset Reference Bank or, as the case may be, Reference Bank with another leading financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Second Fixed Interest Rate or the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(d) or 4(e), respectively, or calculate the Floating Interest Amount, the Issuer shall forthwith appoint another leading financial institution in London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(i) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(j) ***Step-up after Change of Control***

Notwithstanding any other provision of this Condition 4, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) following the occurrence of a Change of Control Event, the then prevailing Interest Rate, and each subsequent Interest Rate otherwise determined in accordance with the provisions of this Condition 4, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

5 Optional Interest Deferral

(a) ***Deferral of Payments***

The Issuer may, subject as provided in Condition 5(b) below, elect to defer all or part of any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a “**Deferral Notice**”) of such election to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Interest Payment Date.

Arrears of Interest (as defined below) may be satisfied at the option of the Issuer in whole or in part at any time (the “**Optional Deferred Interest Settlement Date**”) following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

If any Interest Payment, or part thereof, is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment (or part thereof) shall itself bear interest (such further interest together with the Deferred Interest Payment, being “**Arrears of Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(c), in each case such further interest being compounded on each Interest Payment Date.

Any amounts deferred in accordance with this Condition 5(a) together with further interest accrued thereon as aforesaid shall constitute Arrears of Interest. Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(c).

(b) ***Compulsory Interest Payments***

The Issuer may give a Deferral Notice under Condition 5(a) with regard to any amount which would otherwise be due on an Interest Payment Date pursuant to these Conditions in its sole discretion and for any reason, unless in the three months immediately preceding such Interest Payment Date a Compulsory Interest Payment Event has occurred in which case any such Deferral Notice which may be given shall have no force or effect.

A “**Compulsory Interest Payment Event**” shall have occurred if:

- (a) a dividend, other distribution or payment was validly resolved on, declared, paid or made in respect of ordinary shares in the capital of the Issuer, except where such dividend, other distribution or payment was required to be validly resolved on, declared, paid or made in respect of any stock option plans of the Issuer; or

(b) the Issuer has repurchased or otherwise acquired any ordinary shares in the capital of the Issuer.

(c) ***Arrears of Interest***

Notwithstanding the provisions of Condition 5(a), the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the date on which a Compulsory Interest Payment Event occurs;
- (ii) the date on which the Securities are redeemed (in whole, but not in part) or repaid in accordance with Condition 3, any paragraph of Condition 6 or Condition 11; or
- (iii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities (as defined in Condition 7) in accordance with Condition 7.

If none of the events referred to in Condition 5(c)(i), 5(c)(ii) or 5(c)(iii) takes place prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole, but not in part) on the next following Interest Payment Date.

6 Redemption

(a) ***No Fixed Redemption Date***

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 3(a) and without prejudice to the provisions of Condition 13) only have the right to repay them in accordance with the following provisions of this Condition 6.

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

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on the First Call Date, the Second Call Date or any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

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

If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions at any time all, but not some only, of the Securities at their (i) Make Whole Redemption Price (in the case of a Tax Event where such redemption occurs prior to the Second Call Date) or (ii) principal amount (in the case of a Tax Event where such redemption occurs on or after the Second Call Date or in the case of a Withholding Tax Event where such redemption occurs at any time), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

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

If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their (i) Make Whole Redemption Price (where such redemption occurs prior to the Second Call Date) or (ii) their principal amount (where such redemption occurs on or after the Second Call Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) ***Redemption for Accounting Reasons***

If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their (i) Make Whole Redemption Price (where such redemption occurs prior to the Second Call Date) or (ii) their principal amount (where such redemption occurs on or after the Second Call Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(f) ***Redemption for Substantial Repurchase***

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(g) ***Redemption for Change of Control***

If, immediately prior to the giving of the notice referred to below, a Change of Control Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

7 Substitution or Variation

If an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 8 (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 7 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 7 and subject to the receipt by it of the certificate of the directors of the Issuer referred to in Condition 8 below) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 7, as the case may be.

In connection therewith, any outstanding Arrears of Interest will be satisfied in full in accordance with the provisions of Condition 5(c).

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as appropriate, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 6.

In connection with any substitution or variation in accordance with this Condition 7, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

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

In these Conditions, “**Qualifying Securities**” means securities that:

- (a) have terms not materially less favourable to an investor from the terms of the Securities (as reasonably determined by the Issuer, and provided that a certification to such effect (and confirming that the conditions set out in (i) and (ii) below have been satisfied) of two directors of the Issuer shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), provided that (i) they are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a guarantee of the Issuer; and (ii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* on a winding-up with the Securities and shall contain terms which provide for the same Interest Rate from time to time applying to the Securities and otherwise substantially identical terms (as reasonably determined by the Issuer) to the Securities save where any modifications to such terms are required to be made to avoid the occurrence of an Accounting Event, a Capital Event, a Tax Event or, as the case may be, a Withholding Tax Event; and
- (b) are (i) listed on the Official List and admitted to trading on the London Stock Exchange plc’s Regulated Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee.

For the purposes of the definition of Qualifying Securities:

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

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

8 **Preconditions to Special Event Redemption, Change of Control Event Redemption, Substitution and Variation**

Prior to the publication of any notice of redemption pursuant to Condition 6 (other than redemption pursuant to Condition 6(b)) or any notice of substitution or variation pursuant to Condition 7, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied, and where the relevant Special Event or, as the case may be, Change of Control Event, requires measures reasonably available to the Issuer to be taken, the relevant Special Event or, as the case may be, Change of Control Event, cannot be avoided by the Issuer taking such measures, and the Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders and the Couponholders.

Any redemption of the Securities in accordance with Condition 6(b), 6(c), 6(d), 6(e), 6(f) or 6(g) or any substitution or variation of the Securities in accordance with Condition 7 shall be conditional on all outstanding Arrears of Interest being paid in full in accordance with the provisions of Condition 5 on or prior to the date thereof, together with any accrued and unpaid interest up to (but excluding) such redemption, substitution or, as the case may be, variation date.

The Trustee is under no obligation to ascertain whether any Special Event or Change of Control Event or Change of Control or any event which could lead to the occurrence of, or could constitute, any such Special Event, Change of Control Event or Change of Control, has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such Special Event, Change of Control Event or Change of Control or such other event has occurred.

9 **Purchases and Cancellation**

(a) **Purchases**

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. In each case, purchases will be

made together with all unmatured Coupons and Talons appertaining thereto. The Securities so purchased, while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 14.

(b) ***Cancellation***

All Securities redeemed or substituted by the Issuer pursuant to Condition 6 or 7, as the case may be, (together with all unmatured Coupons and unexchanged Talons relating thereto) will forthwith be cancelled. All Securities purchased by the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons) to the Principal Paying Agent. Securities so surrendered, shall be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached). Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

10 **Payments**

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

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on a Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Securities. Such payments will be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System.
- (ii) Each Security should be presented for redemption together with all unmatured Coupons relating to it in respect of the First Fixed Rate Interest Period, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than five years after the due date for the relevant payment of principal.
- (iii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security in respect of the Second Fixed Rate Interest Period and any Interest Period commencing on or after the Second Call Date (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iv) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 13).

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

Without prejudice to the terms of Condition 12, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

(c) ***Payments on Business Days***

A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day which is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition, “**business day**” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

11 **Event of Default**

(a) ***Proceedings***

If a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of the Securities and which is due (an “**Event of Default**”), then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its sole discretion may, notwithstanding the provisions of Condition 11(b) but subject to Condition 11(c), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that the Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

(b) ***Enforcement***

The Trustee may at its discretion (subject to Condition 11(c)) and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Securities or the Coupons but in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

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

The Trustee shall not be bound to take any of the actions referred to in Condition 11(a) or 11(b) above against the Issuer to enforce the terms of the Trust Deed, the Securities or the Coupons or any other action or step unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

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

No Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.

(e) ***Extent of Holders’ remedy***

No remedy against the Issuer, other than as referred to in this Condition 11, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities, Coupons or under the Trust Deed.

12 **Taxation**

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

- (a) **Other connection:** to, or to a third party on behalf of, a Holder or Couponholder who is liable to such Taxes in respect of such Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Security or Coupon; or

- (b) **Presentation more than 30 days after the Relevant Date:** presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union or making any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

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

13 **Prescription**

Claims in respect of Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 13 or Condition 10(a)(iii).

14 **Meetings of Holders, Modification, Waiver and Substitution**

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

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

The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 7 in connection with the substitution or variation of the terms of the Securities so that they become Qualifying Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 7.

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

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of any of these Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities (any such entity, a **“Substituted Obligor”**) in place of the Issuer (or any previous Substituted Obligor under this Condition) as a new principal debtor under the Trust Deed, the Securities, the Coupons and the Talons.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 14), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders except to the extent already provided in Condition 12 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 17 as soon as practicable thereafter.

15 Replacement of the Securities, Coupons and Talons

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

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of, and/or provision of security for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Holders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Holders.

17 Notices

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

18 Further Issues

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

19 Agents

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

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain Paying Agents having specified offices in at least two major European cities approved by the Trustee;
- (c) whenever a function expressed in these Conditions to be performed by the Agent Bank, the Determination Agent or by the Reference Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank, a Determination Agent and/or, as appropriate, a Reference Bank; and
- (d) at all times maintain a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 17. If any of the Agent Bank, the Determination Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Determination Agent or the Principal Paying Agent in relation to the Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

20 Governing Law

The Trust Deed, the Securities, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England save for the provisions contained in Condition 3(a) which shall be governed by the laws of Scotland.

21 Contracts (Rights of Third Parties) Act 1999

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

22 Definitions

In these Conditions:

an “**Accounting Event**” shall be deemed to occur if, as a result of a change in accounting principles the obligations of the Issuer under the Securities must not or may no longer be recorded as “equity” in the next following audited annual consolidated financial statements of the Issuer prepared in accordance with IFRS or any other accounting standards that the Issuer may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with United Kingdom company law;

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

“**Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which the Target System is operating;

a “**Capital Event**” shall be deemed to occur if the Issuer has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency that the Securities will no longer be eligible for the same, or higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date;

a “**Change of Control Event**” shall be deemed to occur if:

- (a) a Change of Control occurs; and
- (b) on the date (the “**Relevant Announcement Date**”) that is the earlier of (1) the date of the first public announcement of the relevant Change of Control and (2) the date of the earliest Relevant Potential Change of Control Announcement (if any), any of the Issuer’s senior unsecured obligations (the “**Senior Unsecured Obligations**”) carry:
 - (I) a credit rating from any Rating Agency and there occurs, within the Change of Control Period, a Change of Control Rating Downgrade; or
 - (II) no credit rating and a Change of Control Negative Rating Event occurs within the Change of Control Period,

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

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

For the purposes of the definition of a Change of Control Event:

a “**Change of Control**” means the occurrence of an event whereby any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006 as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006 as amended) in (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (B) shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer;

a “**Change of Control Negative Rating Event**” shall be deemed to have occurred if at such time as there is no rating assigned to the Senior Unsecured Obligations by a Rating Agency (i) the Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of any of the Senior Unsecured Obligations or (ii) if

the Issuer does so seek and use such endeavours, it is unable to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being) by the end of the Change of Control Period, provided that in either case, there is at least one Rating Agency in operation at such time from whom to obtain such a rating. If there is no Rating Agency so in operation no Change of Control Negative Rating Event shall be deemed to occur;

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

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

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

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

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

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

“Deferred Interest Payment” means any Interest Payment which, pursuant to Condition 5, the Issuer has elected to defer and which has not been satisfied;

“Determination Agent” means a financial institution of international standing selected by the Issuer and approved by the Trustee;

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

“First Call Date” means 1 October 2015;

“First Fixed Rate Interest Period” means the period from (and including) the Issue Date to (but excluding) the First Call Date;

“Fixed Rate Interest Period” means the First Fixed Rate Interest Period and/or, as appropriate, the Second Fixed Rate Interest Period;

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

“Interest Determination Date” means, in relation to each Interest Period from and including the Interest Period beginning on the Second Call Date, the day falling two Business Days prior to the first day of the relevant Interest Period;

“Interest Payment” means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Interest Period in accordance with Condition 4;

“Interest Payment Date” means 1 October in each year, commencing on (and including) 1 October 2011 in respect of a long first coupon, provided that if any Interest Payment Date after the Second Call Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

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

“Interest Rate” means the First Fixed Interest Rate and/or the Second Fixed Interest Rate and/or the Floating Interest Rate, as the case may be;

“Issuer” means Scottish and Southern Energy plc;

“Make Whole Redemption Price” means, in respect of each Security, the higher of (a) the principal amount of such Security or (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the yield to maturity on the Security on the Reference Date (assuming for this purpose that the Securities are to be redeemed at their principal amount on the First Call Date (in respect of any Security which is redeemed prior to the First Call Date) or the Second Call Date (in respect of any Security which is redeemed on or after the First Call Date and prior to the Second Call Date)) is equal to the yield to maturity (determined by reference to the middle market price) at 11.00 hours (Central European time) on the Reference Date of the Reference Bond plus 1.00 per cent., all as determined by the Determination Agent.

For the purposes of the definition of Make Whole Redemption Price:

“Reference Bond” means (i) (in respect of any Security which is redeemed prior to the First Call Date) the 2.25 per cent. *Bundesobligationen* due April 2015, or if such stock is no longer in issue such other German government stock with a maturity date as near as possible to the First Call Date, as the Determination Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 2.25 per cent. *Bundesobligationen* due April 2015 and (ii) (in respect of any Security which is redeemed on or after the First Call Date and prior to the Second Call Date) the German government stock selected by the Determination Agent, with the advice of the Reference Market Makers, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to 1 October 2020;

“Reference Date” means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 6(c), 6(d) or 6(e) by the Issuer; and

“Reference Market Makers” means three brokers or market makers of gilts selected by the Determination Agent and approved for this purpose by the Trustee or such other three persons operating in the bunds market as are selected by the Determination Agent in consultation with the Issuer and approved for this purpose by the Trustee;

“Margin” means 4.150 per cent. per annum;

“Parity Obligations” means (if any) the most junior class of preference share capital in the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities or such preference shares;

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

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

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

“Rating Agency” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors or Moody’s Investors Service, Inc. 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 (such approval not to be unreasonably withheld or delayed having regard to the interests of the Holders);

“Reference Banks” means four major banks in the Euro-zone interbank market as selected by the Agent Bank, after consultation with the Issuer;

“Relevant Date” means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the

Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 17, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“**Second Call Date**” means 1 October 2020;

“**Second Fixed Rate Interest Period**” means the period from (and including) the First Call Date to (but excluding) the Second Call Date;

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

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

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

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

“**Substantial Repurchase Event**” shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer repurchases (and effects corresponding cancellations) or redeems Securities in respect of 90 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further Securities issued pursuant to Condition 18);

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

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

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

- (i) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (ii) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 16 September 2010 or any similar system or systems having like effect as may from time to time exist);

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

“**Tax Law Change**” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 16 September 2010;

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

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

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

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

TERMS AND CONDITIONS OF THE STERLING SECURITIES

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

The issue of the £750,000,000 Capital Securities (the “**Securities**”, which expression shall, unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Securities) of Scottish and Southern Energy plc (the “**Issuer**”) was authorised by a resolution of the board of directors of the Issuer passed on 22 July 2010 and a written resolution of the board of directors of the Issuer passed on 8 September 2010, respectively, and resolutions of a duly appointed committee of the board of directors of the Issuer passed on 27 August 2010 and 13 September 2010, respectively. The Securities are constituted by a trust deed (the “**Trust Deed**”) dated 20 September 2010 between the Issuer and BNY Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Securities (the “**Holders**”). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Securities and of the interest coupons (the “**Coupons**”, which expression includes, where the context so permits, talons for further Coupons (the “**Talons**”)) and the Talons appertaining to Securities in definitive form. Copies of (i) the Trust Deed; and (ii) the paying agency agreement (the “**Paying Agency Agreement**”) dated 20 September 2010 relating to the Securities between the Issuer, The Bank of New York Mellon, London Branch as the initial principal paying agent (the “**Principal Paying Agent**”, which expression shall include any successor thereto) and the other initial paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the Paying Agents for the time being), The Bank of New York Mellon, London Branch as agent bank (the “**Agent Bank**”, which expression includes the Agent Bank for the time being) and the Trustee are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, London E14 5AL) and at the specified offices of each of the Paying Agents. The Holders and the holders of the Coupons (whether or not attached to the relevant Securities) (the “**Couponholders**”) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

1 **Form, Denomination and Title**

(a) **Form and Denomination**

The Securities are serially numbered and in bearer form in the denominations of £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000, each with Coupons and one Talon attached on issue. No definitive Securities will be issued with a denomination above £99,000. Securities of one denomination may not be exchanged for Securities of any other denomination.

(b) **Title**

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

2 **Status**

The Securities and Coupons constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Holders and the Couponholders are subordinated as described in Condition 3.

3 **Subordination**

(a) **General**

In the event of:

- (i) an order being made, or an effective resolution being passed, for the winding-up of the Issuer (except, in any such case, a solvent winding-up solely for the purposes of a reorganisation, reconstruction or amalgamation or the substitution in place of the Issuer of a “successor in

business” (as defined in the Trust Deed) of the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved in writing by the Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) and (y) do not provide that the Securities shall thereby become redeemable or repayable in accordance with these Conditions); or

- (ii) an administrator of the Issuer being appointed and such administrator giving notice that it intends to declare and distribute a dividend,

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

Accordingly, the claims of holders of all Senior Obligations will first have to be satisfied in any winding-up or analogous proceedings before the Holders may expect to obtain any recovery in respect of their Securities and prior thereto Holders will have only limited ability to influence the conduct of such winding-up or analogous proceedings. See “Risk Factors – Risks related to the Securities generally – Limited Remedies”.

(b) ***Set-off***

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

4 **Interest Payments**

(a) ***Interest Rate***

The Securities bear interest at the applicable Interest Rate from (and including) 20 September 2010 (the “**Issue Date**”) in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities annually in arrear on each Interest Payment Date as provided in this Condition 4.

(b) ***Interest Accrual***

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to the relevant paragraph of Condition 6 or the date of substitution or variation thereof pursuant to Condition 7, as the case may be, unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

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

more than one year, such interest shall be the aggregate of the interest payable in respect of a full year plus the interest payable in respect of the remaining period calculated in the manner as aforesaid.

Where it is necessary to compute an amount of interest in respect of any Security during any Interest Period commencing on or after the Second Call Date, such interest shall be calculated on the basis of the actual number of days in the relevant Interest Period divided by 365, or in the case of an Interest Payment Date falling in a leap year, 366 and rounding the resultant figure to the nearest pence (half a pence being rounded upwards).

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

(c) **First Fixed Interest Rate**

For the First Fixed Rate Interest Period, the Securities bear interest at the rate of 5.453 per cent. per annum (the “**First Fixed Interest Rate**”), payable annually in arrear on 1 October in each year. The first payment of interest, to be made on 1 October 2011, will be in respect of the period from (and including) the Issue Date to (but excluding) 1 October 2011 and will amount to £56.17 per Calculation Amount.

(d) **Second Fixed Interest Rate**

For the Second Fixed Rate Interest Period, the Securities bear interest at the Second Fixed Interest Rate, which shall be calculated, except as provided below, as follows:

$$\text{Second Fixed Interest Rate} = \left(1 + \frac{(\text{5 year Swap Rate} + 3.249 \text{ per cent.})}{2} \right)^2 - 1$$

all as determined by the Agent Bank and where,

“**5 year Swap Rate**” means the mid-swap rate as displayed on Reuters screen “ISDAFIX4” as at 11:00 a.m. (London time) (the “**Reset Screen Page**”) on the first Business Day of the Second Fixed Rate Interest Period (the “**Reset Interest Determination Date**”).

In the event that the 5 year Swap Rate does not appear on the Reset Screen Page on the Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. “**Reset Reference Bank Rate**” means the percentage rate determined on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market (the “**Reset Reference Banks**”) to the Agent Bank at approximately 11:00 a.m. (London time), on the Reset Interest Determination Date. If at least three quotations are provided, the 5 year Swap Rate will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

The “**5 year Swap Rate Quotations**” means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on an Act/365 day count basis) of a fixed-for-floating sterling interest rate swap which (i) has a term of 5 years commencing on the First Call Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the 6-month LIBOR rate (calculated on an Act/365 day count basis).

(e) **Floating Interest Rate**

From (and including) the Second Call Date, the Securities will bear interest at a floating rate of interest (the “**Floating Interest Rate**”). The Floating Interest Rate in respect of each Interest Period commencing on or after the Second Call Date will be determined by the Agent Bank on the basis of the following provisions:

- (i) On each Interest Determination Date, the Agent Bank will determine the offered rate (expressed as a rate per annum) for 12-month deposits in pounds sterling as at 11.00 hours

(London time) on such Interest Determination Date, as displayed on the display designated as page “LIBOR01” on the Reuters Monitor Money Rates Service (or such other page or pages as may replace it for the purpose of displaying such information). The Floating Interest Rate for the relevant Interest Period shall be such offered rate as determined by the Agent Bank plus the Margin.

- (ii) If such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will, on such date, request the principal London office of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks in the London inter bank market for 12-month deposits in pounds sterling as at 11.00 hours (London time) on the Interest Determination Date in question. If at least two of the Reference Banks provide the Agent Bank with such offered quotations, the Floating Interest Rate for the relevant Interest Period shall be the rate determined by the Agent Bank to be the arithmetic mean (rounded if necessary to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of such offered quotations plus the Margin.
- (iii) If on any Interest Determination Date to which the provisions of Condition 4(e)(ii) above apply, one only or none of the Reference Banks provides the Agent Bank with such a quotation, the Floating Interest Rate for the relevant Interest Period shall be the rate which the Agent Bank determines to be the aggregate of (A) the Margin and (B) the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point (0.000005 per cent. being rounded upwards)) of the pounds sterling lending rates which leading banks in London selected by the Agent Bank are quoting, on the relevant Interest Determination Date, to leading banks in London for a period of 12 months, except that, if the banks so selected by the Agent Bank are not quoting as mentioned above, the Floating Interest Rate for such Interest Period shall be the Floating Interest Rate in effect for the last preceding Interest Period to which one of the preceding sub-paragraphs of this Condition 4(e) shall have applied.

(f) ***Determination of Floating Interest Rate and Calculation of Floating Interest Amounts***

The Agent Bank will, as soon as practicable after 11.00 hours (London time) on each Interest Determination Date, determine the Floating Interest Rate in respect of the relevant Interest Period and calculate the amount of interest payable in respect of a Calculation Amount on the Interest Payment Date for that Interest Period (the “**Floating Interest Amount**”).

(g) ***Publication of Second Fixed Interest Rate, Floating Interest Rate and Floating Interest Amounts***

The Issuer shall cause notice of the Second Fixed Interest Rate and the Floating Interest Rate determined in accordance with this Condition 4 in respect of each relevant Interest Period, the Floating Interest Amount per Calculation Amount and the relevant date scheduled for payment to be given to the Trustee, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 17, the Holders, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The Floating Interest Amount, the Floating Interest Rate, the Second Fixed Interest Rate and the date scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(h) ***Agent Bank and Reference Banks***

With effect from the First Call Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks or, as the case may be, Reference Banks provided above where the Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank and its initial specified office is set out at the end of these Conditions.

The Issuer may, with the prior written approval of the Trustee, from time to time replace the Agent Bank or any Reset Reference Bank or, as the case may be, Reference Bank with another leading financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Second Fixed Interest Rate or the Floating Interest Rate in respect of any Interest Period as provided in Condition 4(d) or 4(e), respectively, or calculate the Floating Interest Amount, the Issuer shall forthwith appoint another leading financial institution in

London approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(i) ***Determinations of Agent Bank Binding***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank, the Trustee, the Paying Agents and all Holders and Couponholders and (in the absence as aforesaid) no liability to the Holders, the Couponholders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(j) ***Step-up after Change of Control***

Notwithstanding any other provision of this Condition 4, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(g) following the occurrence of a Change of Control Event, the then prevailing Interest Rate, and each subsequent Interest Rate otherwise determined in accordance with the provisions of this Condition 4, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

5 Optional Interest Deferral

(a) ***Deferral of Payments***

The Issuer may, subject as provided in Condition 5(b) below, elect to defer all or part of any Interest Payment which is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a “**Deferral Notice**”) of such election to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Interest Payment Date.

Arrears of Interest (as defined below) may be satisfied at the option of the Issuer in whole or in part at any time (the “**Optional Deferred Interest Settlement Date**”) following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 17, the Trustee and the Principal Paying Agent not more than 14 nor less than 7 Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election to so satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

If any Interest Payment, or part thereof, is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment (or part thereof) shall itself bear interest (such further interest together with the Deferred Interest Payment, being “**Arrears of Interest**”), at the Interest Rate prevailing from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the relevant Optional Deferred Interest Settlement Date or, as appropriate, such other date on which such Deferred Interest Payment is paid in accordance with Condition 5(c), in each case such further interest being compounded on each Interest Payment Date.

Any amounts deferred in accordance with this Condition 5(a) together with further interest accrued thereon as aforesaid shall constitute Arrears of Interest. Non-payment of Arrears of Interest shall not constitute a default by the Issuer under the Securities or for any other purpose, unless such payment is required in accordance with Condition 5(c).

(b) ***Compulsory Interest Payments***

The Issuer may give a Deferral Notice under Condition 5(a) with regard to any amount which would otherwise be due on an Interest Payment Date pursuant to these Conditions in its sole discretion and for any reason, unless in the three months immediately preceding such Interest Payment Date a Compulsory Interest Payment Event has occurred in which case any such Deferral Notice which may be given shall have no force or effect.

A “**Compulsory Interest Payment Event**” shall have occurred if:

- (a) a dividend, other distribution or payment was validly resolved on, declared, paid or made in respect of ordinary shares in the capital of the Issuer, except where such dividend, other

distribution or payment was required to be validly resolved on, declared, paid or made in respect of any stock option plans of the Issuer; or

- (b) the Issuer has repurchased or otherwise acquired any ordinary shares in the capital of the Issuer.

(c) ***Arrears of Interest***

Notwithstanding the provisions of Condition 5(a), the Issuer shall pay any outstanding Arrears of Interest, in whole but not in part, on the first to occur of the following dates:

- (i) the date on which a Compulsory Interest Payment Event occurs;
- (ii) the date on which the Securities are redeemed (in whole, but not in part) or repaid in accordance with Condition 3, any paragraph of Condition 6 or Condition 11; or
- (iii) the date on which the Securities are substituted for, or where the terms of the Securities are varied so that they become, Qualifying Securities (as defined in Condition 7) in accordance with Condition 7.

If none of the events referred to in Condition 5(c)(i), 5(c)(ii) or 5(c)(iii) takes place prior to the calendar day which is the fifth anniversary of the Interest Payment Date on which the relevant Deferred Interest Payment first arose, it is the intention, though not an obligation, of the Issuer to pay all outstanding Arrears of Interest (in whole, but not in part) on the next following Interest Payment Date.

6 Redemption

(a) ***No Fixed Redemption Date***

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Conditions 3(a) and without prejudice to the provisions of Condition 13) only have the right to repay them in accordance with the following provisions of this Condition 6.

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

The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), redeem all, but not some only, of the Securities on the First Call Date, the Second Call Date or any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest.

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

If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions at any time all, but not some only, of the Securities at their (i) Make Whole Redemption Price (in the case of a Tax Event where such redemption occurs prior to the Second Call Date) or (ii) principal amount (in the case of a Tax Event where such redemption occurs on or after the Second Call Date or in the case of a Withholding Tax Event where such redemption occurs at any time), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

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

If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their (i) Make Whole Redemption Price (where such redemption occurs prior to the Second Call Date) or (ii) their principal amount (where such redemption occurs on or after the Second Call Date), together, in each case, with any

accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) ***Redemption for Accounting Reasons***

If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their (i) Make Whole Redemption Price (where such redemption occurs prior to the Second Call Date) or (ii) their principal amount (where such redemption occurs on or after the Second Call Date), together, in each case, with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(f) ***Redemption for Substantial Repurchase***

If, immediately prior to the giving of the notice referred to below, a Substantial Repurchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(g) ***Redemption for Change of Control***

If, immediately prior to the giving of the notice referred to below, a Change of Control Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable) and subject to Condition 8, redeem in accordance with these Conditions all, but not some only, of the Securities at any time at their principal amount, together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

7 Substitution or Variation

If an Accounting Event, a Capital Event, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to Condition 8 (without any requirement for the consent or approval of the Holders) and subject to its having satisfied the Trustee immediately prior to the giving of any notice referred to herein that the provisions of this Condition 7 have been complied with, and having given not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and, in accordance with Condition 17, the Holders (which notice shall be irrevocable), at any time either (i) substitute all, but not some only, of the Securities for, or (ii) vary the terms of the Securities with the effect that they remain or become (as the case may be), Qualifying Securities, and the Trustee shall (subject to the following provisions of this Condition 7 and subject to the receipt by it of the certificate of the directors of the Issuer referred to in Condition 8 below) agree to such substitution or variation.

Upon expiry of such notice, the Issuer shall either vary the terms of or, as the case may be, substitute the Securities in accordance with this Condition 7, as the case may be.

In connection therewith, any outstanding Arrears of Interest will be satisfied in full in accordance with the provisions of Condition 5(c).

The Trustee shall use reasonable endeavours to assist the Issuer in the substitution of the Securities for, or the variation of the terms of the Securities so that they remain, or as appropriate, become, Qualifying Securities, provided that the Trustee shall not be obliged to participate in, or assist with, any such substitution or variation if the terms of the proposed Qualifying Securities or the participation in or assistance with such substitution or variation would impose, in the Trustee's opinion, more onerous obligations upon it. If the Trustee does not participate or assist as provided above, the Issuer may redeem the Securities as provided in Condition 6.

In connection with any substitution or variation in accordance with this Condition 7, the Issuer shall comply with the rules of any stock exchange on which the Securities are for the time being listed or admitted to trading.

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

In these Conditions, “**Qualifying Securities**” means securities that:

- (a) have terms not materially less favourable to an investor from the terms of the Securities (as reasonably determined by the Issuer, and provided that a certification to such effect (and confirming that the conditions set out in (i) and (ii) below have been satisfied) of two directors of the Issuer shall have been delivered to the Trustee prior to the substitution or variation of the relevant Securities upon which certificate the Trustee shall rely absolutely), provided that (i) they are issued by the Issuer or any wholly-owned direct or indirect finance subsidiary of the Issuer with a guarantee of the Issuer; and (ii) they (or, as appropriate, the guarantee as aforesaid) shall rank *pari passu* on a winding-up with the Securities and shall contain terms which provide for the same Interest Rate from time to time applying to the Securities and otherwise substantially identical terms (as reasonably determined by the Issuer) to the Securities save where any modifications to such terms are required to be made to avoid the occurrence of an Accounting Event, a Capital Event, a Tax Event or, as the case may be, a Withholding Tax Event; and
- (b) are (i) listed on the Official List and admitted to trading on the London Stock Exchange plc’s Regulated Market or (ii) listed on such other stock exchange as is a Recognised Stock Exchange at that time as selected by the Issuer and approved by the Trustee.

For the purposes of the definition of Qualifying Securities:

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

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

8 Preconditions to Special Event Redemption, Change of Control Event Redemption, Substitution and Variation

Prior to the publication of any notice of redemption pursuant to Condition 6 (other than redemption pursuant to Condition 6(b)) or any notice of substitution or variation pursuant to Condition 7, the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the relevant requirement or circumstance giving rise to the right to redeem, substitute or vary is satisfied, and where the relevant Special Event or, as the case may be, Change of Control Event, requires measures reasonably available to the Issuer to be taken, the relevant Special Event or, as the case may be, Change of Control Event, cannot be avoided by the Issuer taking such measures, and the Trustee shall be entitled to accept such certificate without any further inquiry as sufficient evidence of the satisfaction of the conditions precedent set out in such paragraphs in which event it shall be conclusive and binding on the Holders and the Couponholders.

Any redemption of the Securities in accordance with Condition 6(b), 6(c), 6(d), 6(e), 6(f) or 6(g) or any substitution or variation of the Securities in accordance with Condition 7 shall be conditional on all outstanding Arrears of Interest being paid in full in accordance with the provisions of Condition 5 on or prior to the date thereof, together with any accrued and unpaid interest up to (but excluding) such redemption, substitution or, as the case may be, variation date.

The Trustee is under no obligation to ascertain whether any Special Event or Change of Control Event or Change of Control or any event which could lead to the occurrence of, or could constitute, any such Special Event, Change of Control Event or Change of Control, has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no such Special Event, Change of Control Event or Change of Control or such other event has occurred.

9 **Purchases and Cancellation**

(a) ***Purchases***

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase beneficially for its account Securities in any manner and at any price. In each case, purchases will be made together with all unmatured Coupons and Talons appertaining thereto. The Securities so purchased, while held by or on behalf of the Issuer, shall not entitle the Holder to vote at any meetings of the Holders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders or for the purposes of Condition 14.

(b) ***Cancellation***

All Securities redeemed or substituted by the Issuer pursuant to Condition 6 or 7, as the case may be, (together with all unmatured Coupons and unexchanged Talons relating thereto) will forthwith be cancelled. All Securities purchased by the Issuer or any of its Subsidiaries may be held, reissued, resold or, at the option of the Issuer, surrendered for cancellation (together with all unmatured Coupons and all unexchanged Talons) to the Principal Paying Agent. Securities so surrendered, shall be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached). Any Securities so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Securities shall be discharged.

10 **Payments**

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

- (i) Payments of principal, premium and interest will be made against presentation and surrender of Securities or the appropriate Coupons (as the case may be) at the specified office of any of the Paying Agents except that payments of interest in respect of any period not ending on a Interest Payment Date will only be made against presentation and either surrender or endorsement (as appropriate) of the relevant Securities. Such payments will be made by transfer to a sterling account maintained by the payee with a bank in London.
- (ii) Each Security should be presented for redemption together with all unmatured Coupons relating to it in respect of the First Fixed Rate Interest Period, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than five years after the due date for the relevant payment of principal.
- (iii) Upon the due date for redemption of any Security, unmatured Coupons relating to such Security in respect of the Second Fixed Rate Interest Period and any Interest Period commencing on or after the Second Call Date (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (iv) On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 13).

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

Without prejudice to the terms of Condition 12, all payments made in accordance with these Conditions shall be made subject to any fiscal or other laws and regulations applicable in the place of payment. No commissions or expenses shall be charged to the Holders or Couponholders in respect of such payments.

(c) ***Payments on Business Days***

A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a sterling account, in London). No

further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this paragraph falling after the due date. In this Condition, “**business day**” means a day on which commercial banks and foreign exchange markets are open in the relevant city.

11 **Event of Default**

(a) ***Proceedings***

If a default is made by the Issuer for a period of 14 days or more in the payment of any principal or 21 days or more in the payment of any interest, in each case in respect of the Securities and which is due (an “**Event of Default**”), then the Issuer shall without notice from the Trustee be deemed to be in default under the Trust Deed, the Securities and the Coupons and the Trustee at its sole discretion may, notwithstanding the provisions of Condition 11(b) but subject to Condition 11(c), institute proceedings for the winding-up of the Issuer and/or prove in the winding-up of the Issuer and/or claim in the liquidation of the Issuer for such payment and/or give notice to the Issuer that the Securities are, and they shall immediately thereby become, due and payable at their principal amount together with any accrued and unpaid interest up to (but excluding) such date and any outstanding Arrears of Interest.

(b) ***Enforcement***

The Trustee may at its discretion (subject to Condition 11(c)) and without further notice institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Trust Deed, the Securities or the Coupons but in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

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

The Trustee shall not be bound to take any of the actions referred to in Condition 11(a) or 11(b) above against the Issuer to enforce the terms of the Trust Deed, the Securities or the Coupons or any other action or step unless (i) it shall have been so requested by an Extraordinary Resolution of the Holders or in writing by the Holders of at least one-quarter in principal amount of the Securities then outstanding and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

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

No Holder or Couponholder shall be entitled to proceed directly against the Issuer or to institute proceedings for the winding-up or claim in the liquidation of the Issuer or to prove in such winding-up unless the Trustee, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing, in which case the Holder or Couponholder shall have only such rights against the Issuer as those which the Trustee is entitled to exercise as set out in this Condition 11.

(e) ***Extent of Holders’ remedy***

No remedy against the Issuer, other than as referred to in this Condition 11, shall be available to the Trustee or the Holders or Couponholders, whether for the recovery of amounts owing in respect of the Securities or under the Trust Deed or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities, Coupons or under the Trust Deed.

12 **Taxation**

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

- (a) **Other connection:** to, or to a third party on behalf of, a Holder or Couponholder who is liable to such Taxes in respect of such Security or Coupon by reason of his having some connection with the United Kingdom other than a mere holding of such Security or Coupon; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented for payment more than 30 days after the Relevant Date except to the extent that the Holder or Couponholder thereof would have been entitled to such Additional Amounts on presenting it for payment on the thirtieth day; or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to or for an individual or a certain other person and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) **Payment by another Paying Agent:** presented for payment by or on behalf of a Holder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union or making any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

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

13 **Prescription**

Claims in respect of Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of 10 years in the case of Securities and five years in the case of Coupons from the Relevant Date relating thereto. There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued in exchange for a Talon any Coupon the claim in respect of which would be void pursuant to this Condition 13 or Condition 10(a)(iii).

14 **Meetings of Holders, Modification, Waiver and Substitution**

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

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

The agreement or approval of the Holders shall not be required in the case of any variation of these Conditions and/or the Trust Deed required to be made in the circumstances described in Condition 7 in connection with the substitution or variation of the terms of the Securities so that they become Qualifying Securities, and to which the Trustee has agreed pursuant to the relevant provisions of Condition 7.

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

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders.

The Trustee may agree, without the consent of the Holders or Couponholders, to (i) any modification of these Conditions or of any other provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification to (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer of any of these Conditions or of the provisions of the Trust Deed or the Paying Agency Agreement which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Holders (which will not include, for the avoidance of doubt, any provision entitling the Holders to institute proceedings for the winding-up of the Issuer which is more extensive than those set out in Condition 11). Any such modification, authorisation or waiver shall be binding on the Holders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Holders as soon as practicable.

The Trust Deed contains provisions permitting the Trustee to agree, subject to the Trustee being satisfied that the interests of the Holders will not be materially prejudiced by the substitution and to such amendment of the Trust Deed and such other conditions as the Trustee may require but without the consent of the Holders or Couponholders, to the substitution on a subordinated basis equivalent to that referred to in Conditions 2 and 3 of certain other entities (any such entity, a “**Substituted Obligor**”) in place of the Issuer (or any previous Substituted Obligor under this Condition) as a new principal debtor under the Trust Deed, the Securities, the Coupons and the Talons.

In connection with any proposed substitution as aforesaid and in connection with the exercise of its trusts, powers, authorities and discretions (including but not limited to those referred to in this Condition 14), the Trustee shall have regard to the general interests of the Holders as a class but shall not have regard to the consequences of such substitution or such exercise for individual Holders or Couponholders. In connection with any substitution or such exercise as aforesaid, no Holder or Couponholder shall be entitled to claim, whether from the Issuer, the Substituted Obligor or the Trustee or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or any such exercise upon any individual Holders or Couponholders except to the extent already provided in Condition 12 and/or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Any such modification, waiver, authorisation or substitution shall be binding on all Holders and all Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Holders in accordance with Condition 17 as soon as practicable thereafter.

15 Replacement of the Securities, Coupons and Talons

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

16 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of, and/or provision of security for, the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Holders or Couponholders on a report, confirmation or

certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Holders.

17 Notices

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

18 Further Issues

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

19 Agents

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

- (a) at all times maintain a Principal Paying Agent;
- (b) at all times maintain Paying Agents having specified offices in at least two major European cities approved by the Trustee;
- (c) whenever a function expressed in these Conditions to be performed by the Agent Bank, the Determination Agent or by the Reference Bank falls to be performed, appoint and (for so long as such function is required to be performed) maintain an Agent Bank, a Determination Agent and/or, as appropriate, a Reference Bank; and
- (d) at all times maintain a Paying Agent having a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any such termination or appointment and of any change in the specified offices of the Paying Agents will be given to the Holders in accordance with Condition 17. If any of the Agent Bank, the Determination Agent or the Principal Paying Agent is unable or unwilling to act as such or if it fails to make a determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement (as the case may be), the Issuer shall appoint, on terms acceptable to the Trustee, an independent financial institution acceptable to the Trustee to act as such in its place. All calculations and determinations made by the Agent Bank, Determination Agent or the Principal Paying Agent in relation to the Securities shall (save in the case of manifest error) be final and binding on the Issuer, the Trustee, the Paying Agents, the Holders and the Couponholders.

20 Governing Law

The Trust Deed, the Securities, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England save for the provisions contained in Condition 3(a) which shall be governed by the laws of Scotland.

21 **Contracts (Rights of Third Parties) Act 1999**

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

22 **Definitions**

In these Conditions:

an “**Accounting Event**” shall be deemed to occur if, as a result of a change in accounting principles the obligations of the Issuer under the Securities must not or may no longer be recorded as “equity” in the next following audited annual consolidated financial statements of the Issuer prepared in accordance with IFRS or any other accounting standards that the Issuer may adopt in the future for the preparation of its audited annual consolidated financial statements in accordance with United Kingdom company law;

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

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

a “**Capital Event**” shall be deemed to occur if the Issuer has received, and confirmed in writing to the Trustee that it has so received, confirmation from any Rating Agency that the Securities will no longer be eligible for the same, or higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date;

a “**Change of Control Event**” shall be deemed to occur if:

- (a) a Change of Control occurs; and
- (b) on the date (the “**Relevant Announcement Date**”) that is the earlier of (1) the date of the first public announcement of the relevant Change of Control and (2) the date of the earliest Relevant Potential Change of Control Announcement (if any), any of the Issuer’s senior unsecured obligations (the “**Senior Unsecured Obligations**”) carry:
 - (I) a credit rating from any Rating Agency and there occurs, within the Change of Control Period, a Change of Control Rating Downgrade; or
 - (II) no credit rating and a Change of Control Negative Rating Event occurs within the Change of Control Period,

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

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

For the purposes of the definition of a Change of Control Event:

a “**Change of Control**” means the occurrence of an event whereby any person or any persons acting in concert (as defined in the City Code on Takeovers and Mergers), other than a holding company (as defined in Section 1159 of the Companies Act 2006 as amended) whose shareholders are or are to be substantially similar to the pre-existing shareholders of the Issuer, shall become interested (within the meaning of Part 22 of the Companies Act 2006 as amended) in (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (B) shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer;

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

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

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

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

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

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

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

“Deferred Interest Payment” means any Interest Payment which, pursuant to Condition 5, the Issuer has elected to defer and which has not been satisfied;

“Determination Agent” means a financial institution of international standing selected by the Issuer and approved by the Trustee;

“First Call Date” means 1 October 2015;

“First Fixed Rate Interest Period” means the period from (and including) the Issue Date to (but excluding) the First Call Date;

“Fixed Rate Interest Period” means the First Fixed Rate Interest Period and/or, as appropriate, the Second Fixed Rate Interest Period;

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

“Interest Determination Date” means, in relation to each Interest Period from and including the Interest Period beginning on the Second Call Date, the first Business Day of the relevant Interest Period;

“Interest Payment” means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of such Coupon for the relevant Interest Period in accordance with Condition 4;

“Interest Payment Date” means 1 October in each year, commencing on (and including) 1 October 2011 in respect of a long first coupon, provided that if any Interest Payment Date after the Second Call Date would otherwise fall on a day which is not a Business Day, it shall be

postponed to the next day which is a Business Day, unless it would thereby fall in the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

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

“Interest Rate” means the First Fixed Interest Rate and/or the Second Fixed Interest Rate and/or the Floating Interest Rate, as the case may be;

“Issuer” means Scottish and Southern Energy plc;

“Make Whole Redemption Price” means, in respect of each Security, the higher of (a) the principal amount of such Security or (b) the price, expressed as a percentage (rounded to four decimal places, 0.00005 being rounded upwards), at which the Gross Redemption Yield on the Security on the Reference Date (assuming for this purpose that the Securities are to be redeemed at their principal amount on the First Call Date (in respect of any Security which is redeemed prior to the First Call Date) or the Second Call Date (in respect of any Security which is redeemed on or after the First Call Date and prior to the Second Call Date)) is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 hours (London time) on the Reference Date of the Reference Bond plus 1.00 per cent., all as determined by the Determination Agent.

For the purposes of the definition of Make Whole Redemption Price:

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security (as calculated by the Determination Agent on the basis set out in 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) on an annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places));

“Reference Bond” means (i) (in respect of any Security which is redeemed prior to the First Call Date) the 4.75 per cent. Treasury Stock due September 2015, or if such stock is no longer in issue such other United Kingdom government stock with a maturity date as near as possible to the First Call Date, as the Determination Agent may, with the advice of the Reference Market Makers, determine to be appropriate by way of substitution for the 4.75 per cent. Treasury Stock due September 2015 and (ii) (in respect of any Security which is redeemed on or after the First Call Date and prior to the Second Call Date) the United Kingdom government stock selected by the Determination Agent, with the advice of the Reference Market Makers, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to 1 October 2020;

“Reference Date” means the date which is three Business Days prior to the date fixed for redemption pursuant to Condition 6(c), 6(d) or 6(e) by the Issuer; and

“Reference Market Makers” means three brokers or market makers of gilts selected by the Determination Agent and approved for this purpose by the Trustee or such other three persons operating in the gilt-edged market as are selected by the Determination Agent in consultation with the Issuer and approved for this purpose by the Trustee;

“Margin” means 4.249 per cent. per annum;

“Parity Obligations” means (if any) the most junior class of preference share capital in the Issuer and any other obligations of the Issuer, issued directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities or such preference shares;

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

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

“pounds sterling”, “pence” or “sterling” means the lawful currency of the United Kingdom;

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

“Rating Agency” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. or any of its subsidiaries and their successors or Moody’s Investors Service, Inc. 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 (such approval not to be unreasonably withheld or delayed having regard to the interests of the Holders);

“Reference Banks” means four major banks in the interbank market in London as selected by the Agent Bank, after consultation with the Issuer;

“Relevant Date” means (i) in respect of any payment other than a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date on which such payment first becomes due and payable but, if the full amount of the moneys payable on such date has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders in accordance with Condition 17, and (ii) in respect of a sum to be paid by the Issuer in a winding-up or administration of the Issuer, the date which is one day prior to the date on which an order is made or a resolution is passed for the winding-up or, in the case of an administration, one day prior to the date on which any dividend is distributed;

“Second Call Date” means 1 October 2020;

“Second Fixed Rate Interest Period” means the period from (and including) the First Call Date to (but excluding) the Second Call Date;

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

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

“Special Event” means any of an Accounting Event, a Capital Event, a Substantial Repurchase Event, a Tax Event or a Withholding Tax Event or any combination of the foregoing;

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

“Substantial Repurchase Event” shall be deemed to occur if prior to the giving of the relevant notice of redemption the Issuer repurchases (and effects corresponding cancellations) or redeems Securities in respect of 90 per cent. or more in the principal amount of the Securities initially issued (which shall for this purpose include any further Securities issued pursuant to Condition 18);

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

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

- (i) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not be entitled to claim a deduction in respect of computing its taxation liabilities in the United Kingdom, or such entitlement is materially reduced; or
- (ii) in respect of the Issuer’s obligation to make any Interest Payment on the next following Interest Payment Date, the Issuer would not to any material extent be entitled to have such deduction set against the profits of companies with which it is grouped for applicable United Kingdom tax purposes (whether under the group relief system current as at 16 September 2010 or any similar system or systems having like effect as may from time to time exist);

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

“Tax Law Change” means a change in or proposed change in, or amendment or proposed amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having the power to tax, including any treaty to which the United Kingdom is a party, or any change in the application of official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretation thereof that differs from the previously generally accepted position in relation to similar transactions, which change or amendment becomes, or would become, effective on or after 16 September 2010;

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

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

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

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

SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE IN GLOBAL FORM

Each Temporary Global Security and each Permanent Global Security will contain provisions which apply to the relevant Securities while they are in global form, some of which modify the effect of the Conditions of the relevant Security. The following is a summary of certain of those provisions as they relate to the relevant Securities:

1 Exchange

The Temporary Global Security is exchangeable in whole or in part for interests in the Permanent Global Security on or after a date which is expected to be 30 October 2010, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Security. The Permanent Global Security is exchangeable in whole but not in part (free of charge to the Holder) for the definitive Securities described below if the Permanent Global Security is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the Holder may give notice to the Principal Paying Agent of its intention to exchange the Permanent Global Security for definitive Securities on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the Holder of the Permanent Global Security may surrender the Permanent Global Security to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Security the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security and a Talon for further Coupons), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Permanent Global Security, the Issuer will, if the Holder so requests, procure that it is cancelled and returned to the Holder together with any relevant definitive Securities.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

2 Payments

No payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal, premium and interest in respect of Securities represented by a Global Security will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of such Global Security to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Security, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Securities. Condition 12(d) and Condition 19(d) will apply to the definitive Securities only. For the purpose of any payments made in respect of a Global Security, Condition 10(c) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Securities.

3 Notices

So long as the Securities are represented by the Permanent Global Security and such Permanent Global Security is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

4 Prescription

Claims against the Issuer in respect of principal, premium and interest on the Securities while the Securities are represented by the Permanent Global Security will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

5 **Meetings**

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

6 **Purchase and Cancellation**

Cancellation of any Security required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Security.

7 **Trustee's Powers**

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

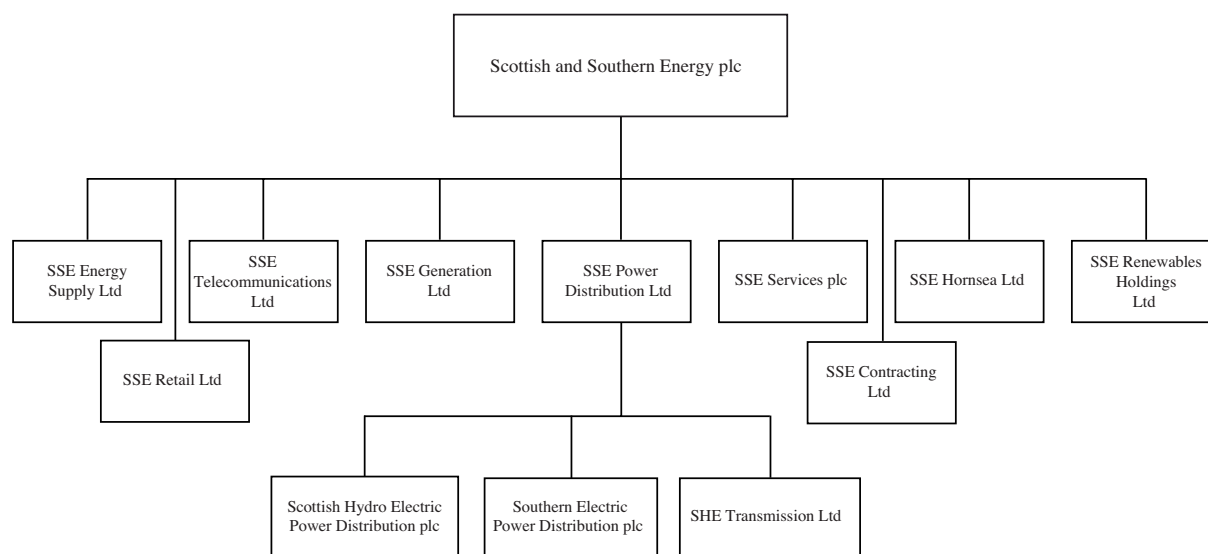
DESCRIPTION OF THE ISSUER

Scottish and Southern Energy plc (“**SSE**”) was incorporated with limited liability in Scotland under the Companies Act 1985 with registration number SC117119 on 1 April 1989 for an unlimited term. SSE was originally incorporated as North of Scotland Electricity plc, and on 1 August 1989 it changed its name to Scottish Hydro Electric plc. In December 1998 Scottish Hydro Electric plc merged with Southern Electric plc, whereby Scottish Hydro Electric plc acquired Southern Electric plc and subsequently changed its name on 14 December 1998 to Scottish and Southern Energy plc (SSE and its subsidiaries being the “**SSE Group**”).

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

The SSE Group

Scottish and Southern Energy Group — Principal Subsidiaries as at 31 March 2010



The SSE Group is the UK’s broadest based energy company. The SSE Group’s principal activities are the generation, transmission, distribution and supply of electricity; energy trading; the storage, distribution and supply of gas; other energy-related services such as mechanical and electrical contracting; and telecoms. Its core purpose is to provide the energy people need in a reliable and sustainable way. Its principles are effective management of core businesses, maintenance of a strong balance sheet, making well-founded investments, taking a selective and disciplined approach to acquisitions and using share buy-backs as the benchmark for investments. It differentiates itself by maintaining a consistent strategy, having a strong track record of delivery and assesses generation, transmission, distribution and supply as a single value chain in a vertically integrated business.

The SSE Group owns approximately 11,300 megawatts (“**MW**”) of gas and oil fired, coal and biomass-fired, hydro, pumped storage and wind power stations in Scotland, England, Northern Ireland and the Republic of Ireland. Its portfolio of power stations is the second largest and most diverse in the UK and it is also the leading generator of electricity from renewable sources. SSE regards its large and diverse generation portfolio as a hedge against fossil fuel price exposure.

SSE owns three electricity network companies: Scottish Hydro Electric Power Distribution (“**SHEPD**”), Southern Electric Power Distribution (“**SEPD**”) and Scottish Hydro Electric Transmission Limited (“**SHETL**”). The SSE Group supplies electricity and gas to around 9.35 million customers via the Southern Electric, SWALEC, Scottish Hydro Electric, Atlantic Electric and Airtricity brands. These brands offer a range of energy-related products and services. The SSE Group is the second largest supplier of energy in the UK and (following the acquisition of Airtricity Holdings Ltd (which has since been re-named SSE Renewables Holdings Limited (“**SSE Renewables**”)) in February 2008) the third largest in the Republic of Ireland and the fourth largest in the overall Irish market.

The SSE Group distributes electricity to over 5.81 million homes, offices and businesses via approximately 128,776 kilometres of overhead lines and underground cables across one third of the UK's land mass. It is the second largest electricity distributor in the UK, with a regulatory asset value (“**RAV**”) of £2.56 billion as at 31 March 2010. SSE's electricity transmission and distribution business represents 12 per cent. of the UK's electricity transmission and distribution RAV.

The SSE Group's electricity transmission network covers Scotland and central southern England and has a RAV of £0.4 billion as at 31 March 2010. During the period 2010-2020 SSE expects to invest approximately £2.3 billion in its transmission business, with approximately 15 per cent. of investment to occur by 2013. As a result of such investment and capital expenditure, SSE expects transmission RAV to approach £1 billion by 2015 and £2 billion by 2020.

SSE owns 50 per cent. of Scotia Gas Networks Limited (“**SGN**”), the second largest gas distribution company in the UK, which distributes gas to 3.54 million industrial, commercial and domestic customers in Scotland and the south of England through its subsidiaries Scotland Gas Networks plc and Southern Gas Networks plc (representing a 50 per cent. share of the £3.9 billion RAV as at 31 March 2010). SGN's gas distribution business represents 29 per cent. of the UK's gas distribution RAV. SSE also provides corporate and management services for SGN and its subsidiaries.

SSE owns the third largest contracting, connections and metering businesses in the UK, with approximately 4,000 employees. It is, amongst other things, the UK's largest street lighting contractor, responsible for maintaining around 1.1 million lighting units.

SSE owns the fourth largest telecoms network in the UK with a 11,200 kilometre network comprising of fibre optic cabling, leased lit fibre and microwave radio, providing capacity and bandwidth services for companies, public sector organisations and internet service providers. Additionally, SSE owns and operates 53 out-of-area electricity networks.

In March 2010, SSE completed the in-sourcing of its meter reading and electricity meter operation services throughout the UK, a year ahead of schedule, and is expected to provide significant annual cost savings, deliver more reliable service, improve relations with customers and contribute to the energy demand reduction project established by the UK government (the “**EDR Project**”). The EDR Project provides a sample of UK households with either state of art smart meters or clip on real time display units for their existing meters in order to provide such households with new ways of receiving information to help them cut their energy use.

SSE also owns and operates the UK's largest onshore gas storage facility at Hornsea in East Yorkshire, in which approximately 325 million cubic metres (“**mcm**”) of gas can be stored in a total of nine caverns. Hornsea accounts for approximately 7 per cent. of the total gas storage capacity in the UK and 15 per cent. of deliverability. With Statoil (UK) Ltd (“**Statoil**”), SSE is developing another gas storage facility at nearby Aldbrough, where an initial 115mcm of capacity in four caverns is already available for commercial operation. A further 85mcm of capacity is expected to become available in the course of 2010/2011. SSE's capital expenditure as at 31 March 2010 in respect of Aldbrough is approximately £208 million and SSE's total capital expenditure is expected to be in the region of £290 million. When fully commissioned, currently expected to be in 2012, Aldbrough will have the capacity to inject gas and store up to 370mcm in nine under ground caverns (of which SSE will own two thirds). SSE and Statoil have consent to increase the storage capacity at the Aldbrough site beyond that currently under development. If developed in full, this would approximately double the amount of gas that can be stored, to around 700mcm. SSE expects to take a final decision on whether and how to invest in a second phase of development at Aldbrough by early 2011.

For the year ended 31 March 2010, operating profit (before exceptional items and certain remeasurements and adjusted to remove the SSE Group's share of interest, fair value movements on financing derivatives and tax from jointly controlled entities and associates) was split as follows: 55 per cent. generation and supply, 37 per cent. energy networks and 8 per cent. for other businesses.

Listed on the London Stock Exchange, SSE was the UK's 27th largest company by market capitalisation on 31 March 2010. Its strategy is to deliver sustained real growth in the dividend payable to shareholders through the efficient operation of, and investment in, a balanced range of regulated and non-regulated energy-related businesses.

Within this strategic framework, SSE focuses on enhancing and creating value for shareholders from its energy and infrastructure-related activities in the UK and Ireland and from the development of an international renewable energy business.

Borrowings and facilities

SSE's objective is to maintain a balance between continuity of funding and flexibility, with debt maturities staggered across a broad range of dates. Its average debt maturity as at 31 July 2010 was 11.7 years, compared with 11.0 years at 31 March 2010 and 11.8 years at 31 March 2009.

SSE's debt structure remains strong, with around £4.8 billion of medium-to-long-term borrowings as at 31 July 2010 in the form of issued bonds, European Investment Bank debt and long-term project finance and other loans. Less than £100 million of medium-to-long-term borrowings will mature in the year to 31 March 2011 and £130 million of medium-to-long-term borrowings will mature in the year to 31 March 2012. The balance of SSE's adjusted net debt is financed with short-term commercial paper and bank debt. The facilities, external debt and internal loan stocks for the SSE Group as at 31 July 2010 are as follows:

SSE	• €600 million 6.125 per cent. bonds due 2013 (£498.6 million of principal outstanding) • £700 million 5.75 per cent. bonds due 2014 • \$100 million floating rate notes due 2015 (£61.5 million of principal outstanding) • £500 million 5 per cent. bonds due 2018 • £300 million 5.875 per cent. bonds due 2022 • £500 million 8.375 per cent. bonds due 2028 • £350 million 6.25 per cent. bonds due 2038 • £208.7 million (JPY 28 billion) Samurai loan maturing 2013 • €1.5 billion euro commercial paper programme (£364.2 million issuance outstanding) • £900 million revolving credit facility maturing 2015 (undrawn) • £100 million revolving credit facility maturing 2012 (£60 million drawn) • £166.4 million non-recourse funding relating to street lighting projects • £400 million European Investment Bank loans (undrawn)
SSE Generation Limited	• £200 million European Investment Bank loans • £1.050 billion intercompany loan stock due to SSE
SSE Renewables Holdings Limited	• £280.4 million external bank debt
SHEPD	• £75 million European Investment Bank loans • £109.9 million 1.429 per cent. index linked bonds due 2056 • £300 million intercompany loan stock due to SSE
SEPD	• £71.4 million European Investment Bank loans • £350 million 5.5 per cent. bonds due 2032 • £325 million 4.625 per cent. bonds due 2037 • £100.3 million 4.454 per cent. index linked loan maturing 2044
SHETL	• £25 million European Investment Bank loans • £133.1 million intercompany loan stock due to SSE
SSE Energy Supply Limited	• £250 million intercompany loan stock due to SSE
SSE Service plc	• £30 million intercompany loan stock due to SSE
SSE Hornsea Limited	• £200 million intercompany loan stock due to SSE
Keadby Generation Limited	• £825 million intercompany loan stock due to SSE

Investment priorities

SSE's investment priorities are to deliver additional assets in renewable energy, electricity networks and gas storage which contribute to secure and lower-carbon supplies of energy, to meet other key milestones in its investment programme in generation, electricity networks and gas storage and to pursue the additional options that it has identified for investment.

Investment and capital expenditure

In March 2008, SSE announced it was undertaking a five-year capital investment programme for the period to March 2013 projected to total around £6.7 billion.

The principal focus of the investment programme is renewable energy. SSE has 2,370MW of operating renewable capacity, 3,660MW of renewable capacity in operation, in construction or with consent for development across the UK and Ireland and has targeted 4,000MW of operating renewable capacity by 2013 across the UK and Ireland. At the same time, significant investment is also taking place in thermal generation, electricity networks and in a number of other areas, such as gas storage. SSE, through its 50 per cent. equity interest in SGN, is also making a significant investment in regulated gas networks. As a consequence of such investment and capital expenditure, SSE expects the overall RAV of the SSE Group to reach £4.6 billion by March 2013.

Acquisitions and Investments

Abernedd

In May 2009, SSE acquired Abernedd Power Company Limited from BP Alternative Energy. Abernedd has applied for consent to construct and operate a new Combined Cycle Gas Turbine (“CCGT”) power station, with a capacity of over 800MW, on a brownfield site in Baglan Bay in South Wales, where there is already in place electricity transmission, gas and water infrastructure for the first phase of the power station. The total cash consideration will be determined by the progress of the development.

Uskmouth Power Company Ltd

In August 2009, SSE acquired Uskmouth Power Company Ltd, the owner and operator of the 363MW Uskmouth coal-fired power station in Newport for a total cash consideration of £27 million (including an aggregate of £10 million cash and working capital balances).

Griffin Wind Farm Ltd

In January 2009, SSE Renewables acquired a 89.8 per cent. majority equity interest in the Griffin wind farm in Perthshire for £42.4 million. The remaining 10.2 per cent. equity interest was purchased in November 2009 for £3.2 million giving SSE Renewables 100 per cent. control of the wind farm project, which is currently under construction. Griffin’s estimated final output is expected to be 400 gigawatt hours (“GWh”) and SSE’s capital expenditure to March 2010 in respect of the Griffin wind farm is approximately £11 million.

Dutch Offshore

SSE Renewables sold 50 per cent. of their Dutch offshore business (all development sites) in November 2009 to DONG Energy for €3 million plus €1 million for reimbursement of costs creating a 50:50 joint venture with DONG Energy to develop three offshore wind farms with a total capacity of just over 1,000 MW.

ESB Contracts Ltd

SSE acquired the assets of ESB Contracts Ltd (“ESBC”) the street lighting business of Dublin-based Electricity Supply Board in November 2009, for a total cash consideration of €6.4 million. ESBC currently maintains around 300,000 street lights in the Republic of Ireland.

Walney Offshore Wind Farm

In December 2009, SSE Renewables acquired a 25.1 per cent. equity interest in the 367MW Walney offshore wind farm from DONG Energy, which retained the remaining 74.9 per cent. of the equity. The total consideration for the 25.1 per cent. equity interest is up to £39 million, of which around £17 million is subject to the operational performance of the wind farm. SSE’s capital expenditure to March 2010 in respect of Walney is approximately £60 million. SSE’s share of Walney’s estimated final output is expected to be 330GWh.

ATLAS Connect

In March 2010, SSE Telecommunications Limited acquired the ATLAS Connect fibre telecommunications network from Scottish Enterprise for a consideration of £0.8 million. The ATLAS network spans six business parks across Scotland and £1 million has been committed for investment for development and integration into the existing national network.

Burntisland Fabrications Ltd

In April 2010, SSE Venture Capital Limited invested £11 million for a 15 per cent. equity interest in Burntisland Fabrications Ltd (“**BiFab**”). In addition to the equity interest, SSE has secured an agreement with BiFab for the supply of at least 50 jacket substructures annually to support SSE’s offshore wind developments.

Ardrossan

In April 2010, SSE Renewables acquired the remaining 49 per cent. equity interest in the Ardrossan 30MW operational wind farm for £24.6 million from Viridis in Denmark, taking ownership to 100 per cent. All the electricity generated from this wind farm was contracted to another energy company, and therefore in line with SSE’s strategy to optimise its wind farm portfolio, the Ardrossan wind farm was sold in May 2010 to Infinis plc for £53.8 million.

Barkip Biogas Plant

In May 2010, SSE completed a £11.3 million investment in the construction of Scotland’s largest biogas plant at a former Landfill site at Barkip in North Ayrshire. The investment makes SSE the first energy company in the UK to commit to construction and operation of an anaerobic digestion biogas plant of this type, and the plant is expected to be operational by 2011. The Barkip site will be capable of processing around 80,000 tonnes of waste annually, producing enough gas to generate up to 2MW of electricity.

Hess Ltd Natural Gas Assets

In June 2010, SSE (through its wholly owned subsidiary SSE E&P UK Limited) entered into an agreement with Hess Ltd to acquire its natural gas assets and infrastructure in three regions of the North Sea (Everest/Lomond Area; Easington Catchment Area; and Bacton Area). Gas production from these assets is expected to be in excess of 200 million therms in 2010, rising to approximately 300 million therms in 2012, which will provide approximately 6 per cent. of SSE’s total gas requirements. Cash consideration of \$324 million will be paid for these assets subject to further partner and regulatory approvals before completion which is expected to take place later in 2010. This acquisition will allow SSE to enter the upstream gas sector in a measured way (\$6.6 per barrel of oil equivalent) by buying proven and geographically diverse production assets. It represents a new source of fuel and a hedge for SSE’s gas generation and supply activities.

Generation

As at the date of this Prospectus, the composition of SSE’s generation capacity is split as follows: 4,590MW gas/oil, 4,370MW coal/biomass and 2,370MW renewables.

Gas-fired

To avoid over-dependence on a single fuel, SSE operates a diverse generation portfolio and is actively developing a diverse range of options to add to it. At the same time, CCGT continues to be the benchmark technology in generation, making a growing contribution to meeting the UK’s electricity requirements, because of its relatively low costs, short construction time and high thermal efficiency. With a carbon intensity around half that of coal-fired power stations, investment in CCGT assists in the transition to lower-carbon electricity generation.

The 840MW CCGT plant in Southampton developed by Marchwood Power Limited, a 50:50 joint venture between SSE and ESB International, became available for full commercial operation in December 2009, making it the UK’s first new gas-fired power station for five years. Marchwood has a thermal efficiency of 58 per cent. All of the station’s output is contracted to SSE.

Coal and biomass

For the financial year ended 31 March 2010, SSE generated 11.5TWh of electricity at its coal-fired power stations at Fiddler’s Ferry and Ferrybridge, compared with 7.8TWh in the previous year. The stations achieved 92 per cent. of their maximum availability to generate electricity, excluding planned outages, compared with 89 per cent. in the previous year.

In April 2010, SSE secured consent from Wakefield District Council to develop at Ferrybridge the UK’s biggest carbon dioxide capture trial facility. A £21 million trial will be carried out in collaboration with Doosan Babcock and Vattenfall to demonstrate the carbon dioxide capture element of carbon capture

and storage (CCS) technology. In March 2009, SSE secured £6.3 million of funding from the UK Department of Energy and Climate Change, the Technology Strategy Board and Northern Way. Construction work is expected to commence during 2010, with the trial itself commencing in 2011 and running through to the end of 2012.

Wind

When SSE entered into the agreement to acquire Airtricity Holdings Limited in January 2008, the combined business had just over 870MW of onshore wind farm capacity in operation, in construction or with consent for development in the UK and Ireland. This capacity now totals 1,780MW, comprising: 840MW in operation; 790MW in construction or pre-construction; and 150MW with consent for development. SSE's principal onshore wind farm projects are Griffin (as to which see "— Acquisitions and Investments" above) and Clyde, which is also currently under construction with the first section of the project to be completed by 2011 and the development as a whole by 2012. Clyde's estimated final output is expected to be 1,000GWh and SSE's capital expenditure to March 2010 is approximately £124 million.

SSE has submitted for approval by the relevant planning authorities in the UK and Ireland proposals for onshore wind farms with a total capacity of 1,400MW. SSE also has around 2GW of onshore wind farm capacity development opportunities in the pre-planning phase in the UK and Ireland and over 3GW under development in mainland Europe.

In addition to its onshore capacity, SSE has offshore wind farm capacity in operation or under construction totalling almost 350MW, comprising: a 50 per cent. equity interest in the 10MW Beatrice offshore wind farm in the Moray Firth; a 25.1 per cent. share of the 367MW Walney offshore wind farm now under construction in the Irish Sea (as to which see "— Acquisitions and Investments" above) and a 50 per cent. share of the 500MW Greater Gabbard development now under construction in the outer Thames Estuary. SSE's capital expenditure to March 2010 in respect of Greater Gabbard is approximately £455 million and Greater Gabbard is estimated to produce 1900GWh of electricity in a typical year, of which SSE will take 50 per cent.

Nuclear

SSE believes that some participation in new nuclear power stations may make sense in view of its commitment to a diverse generation portfolio and complements its core investment in renewable sources of energy. During 2009, a consortium of GDF Suez SA, Iberdrola SA and SSE, in which SSE has a 25 per cent. equity interest, secured an option to purchase from the Nuclear Decommissioning Authority land for the development of new nuclear power generating plant adjacent to Sellafield in Cumbria, for a total cash consideration that could reach £70 million. The consortium now intends to prepare detailed plans for developing new nuclear power plant at the site with a total capacity of up to 3.6GW. These plans will be prepared in consultation with the safety authorities and local stakeholders and will be submitted for consideration by the relevant planning authorities, with the aim of being able to begin construction of the first new reactor in 2014.

Efficiencies

According to OFGEM data, SHEPD and SEPD have the most efficient electricity distribution performance (with SEPD indirect costs being at 83 per cent. of the industry average and SHEPD's operating costs at 70 per cent. of the industry average) and SGN is one of most efficient gas distributors in the UK.

Customer relations

SSE has achieved an increase in the number of electricity and gas customers from 4.5 million in December 2001 to 9.35 million in March 2010. SSE is a market leader in customer service as confirmed by Consumerfocus data on the level of domestic electricity cases reported to Energywatch and several consumer surveys, including uSwitch.com customer satisfaction ratings and the UK Consumer Satisfaction Index.

Board of Directors of SSE

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

Name	Title
Lord Smith of Kelvin	Chairman (Non-Executive)
Ian Marchant	Chief Executive
Colin Hood	Chief Operating Officer
Gregor Alexander	Finance Director
Alistair Phillips-Davies	Energy Supply Director
Thomas Andersen	Non-Executive Director
Nick Baldwin	Non-Executive Director
Richard Gillingwater	Non-Executive Director
Rene Medori	Non-Executive Director
Lady Rice CBE	Non-Executive Director

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

- **Lord Smith** of Kelvin is Chairman of the Weir Group plc and of Glasgow 2014 Ltd. He serves as a non-executive Director of Standard Bank Group Ltd. He is also Chancellor of the University of the West of Scotland and is a member of the council of Economic Advisers to the First Minister of Scotland.
- **Ian Marchant** is Chairman of the Scottish Climate Change Business Delivery Group and 2020 Delivery Group and is a member of the United Kingdom Business Council for Sustainable Energy, OFGEM's Environmental Advisory Group and the Energy Research Partnership. He also serves as a non-executive Director of John Wood Group plc and of the Maggie's Cancer Centres.
- **Colin Hood** is a Director and former Chairman of Scotia Gas Networks Ltd, a non-executive Director of First Group plc.
- **Gregor Alexander** is a Director of Scotia Gas Networks Limited.
- **Alistair Phillips-Davies** is Chairman of the Energy Retail Association.
- **Thomas Andersen** is a non-Executive Director of Pertrofac Plc and of VKR Holding. He was Chief Executive of Maersk Oil, a member of the Group Executive Board of AP Moller-Maersk, as well as being a Director or Chairman of a number of companies within the AP Moller-Maersk Group, until 2009.
- **Nick Baldwin** is a non-executive director of the Nuclear Decommissioning Authority, the Forensic Science Service and Sanctuary Housing Group. Additionally, he is Chairman of the Public Weather Service Customer Group and of the TreeHouse Trust.
- **Richard Gillingwater** is Dean of Cass Business School and is a non-executive Chairman of CDC Group plc and a Senior Independent Director of Tomkins plc.
- **Rene Medori** is Finance Director of Anglo American plc and is a non-executive Director of Anglo Platinum and DB (De Beers) Investments.
- **Lady Rice CBE** is Managing Director of the Lloyds Banking Group Scotland. She chairs the Board of the Edinburgh International Book Festival, and is a non-executive director of the Court of the Bank of England. She additionally serves as a non-executive director of several other organisations.

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

Regulatory Environment

Electricity Generation

The electricity industry in the UK is regulated by the Gas and Electricity Markets Authority (the "**Authority**"). The principal objective of the Authority, as set out under the Electricity Act 1989, as amended by the Utilities Act 2000 and the Energy Acts 2004, 2008 and 2010 (the "**Electricity Act**"), is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems; wherever appropriate by promoting effective competition. The Office of Gas and

Electricity Markets (“**OFGEM**”), provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The Authority’s duties include ensuring that licence holders are able to finance their statutory and licence obligations, and that they operate their business with regard to the environment. On 2 September 2010, OFGEM announced that it had commenced an investigation into four energy suppliers, including SSE, to establish whether such suppliers are complying with their obligations to prevent misselling of energy contracts. As at the date of this Prospectus, SSE expects that such investigation will not have a material adverse effect on the operations and/or financial position of the SSE Group.

SSE’s generation businesses generate electricity under licences issued under the Electricity Act. The electricity generation licences oblige parties to accede to and/or comply with the sets of rules or “codes” (“**Codes**”) that govern the operation of the electricity generation market. The main Codes are the Balancing and Settlement Code, the Connection and Use of System Code, the Grid Code and the Distribution Code. The current structure of the competitive UK market was put in place in 2005 when the England and Wales market rules were applied to Scotland, thereby creating the British Electricity Trading and Transmission Arrangements (“**BETTA**”).

Modifications to the BETTA market operating rules require approval by the Authority. The modification processes of the BETTA market rules are due to change at the end of 2010. In addition, the UK government has recently issued its first “Annual Energy Statement” which announced a consultation on electricity market reform to commence in the third quarter of 2010 with a white paper expected in the second quarter of 2011.

While SSE’s generation businesses operate under such licences, electricity generation in the UK is a competitive activity and is not subject to price controls.

The environmental impact of the operation of large generating stations in the UK is regulated by the Environment Agency in England and Wales (“**EA**”) and the Scottish Environmental Protection Agency in Scotland (“**SEPA**”). EA and SEPA were both established under the Environment Act 1995. The operation of SSE’s generating plant in England and Wales and Scotland is carried out under permits issued by EA and SEPA. These permits impose limits on all activities that could impact the environment, including emissions to air and water and the production and disposal of wastes. Formal statutory notices may be issued by EA and SEPA in relation to any environmental incidents. The EA also issues permits under the EU emissions trading scheme for carbon dioxide emissions and ensures industry compliance with such scheme. SSE’s carbon emissions data is externally verified by a UK accreditation service (UKAS) – accredited organisation.

Electricity Transmission

In the north of Scotland, the licensed transmission network operator is SHETL. SHETL is a 100 per cent. indirectly owned principal subsidiary of SSE and holds a licence for the transmission of electricity.

SHETL has a duty under the Electricity Act to develop and maintain an efficient, co-ordinated and economical system of electricity transmission that facilitates competition in the supply and generation of electricity. SHETL is regulated by the Authority. Under the licence, where it is reasonable to do so, SHETL is under a statutory duty to offer terms to connect any customer that requests a connection within its area and to maintain that connection. SHETL’s licence may be terminated on 25 years’ notice given by the Secretary of State for Trade and Industry (or any successor) (the “**Secretary of State**”) and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

SHETL is subject to a control on the prices it can charge and the quality of supply it must provide. Its operations are regulated under the transmission 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. The current electricity transmission price control commenced on 1 April 2007. This covers the five year period until 31 March 2012. To allow the next full price control settlement to reflect the conclusions of its detailed review of the future regulatory framework for energy networks, in December 2009 OFGEM announced that it will delay the implementation of the next transmission price control from 1 April 2012 until 1 April 2013 and apply a one-year “adapted rollover” of the current control from 1 April 2012 to 31 March 2013.

Electricity distribution

SHEPD and SEPD are 100 per cent. indirectly owned principal subsidiaries of SSE and hold licences to distribute electricity.

The north of Scotland electricity distribution business of SSE was transferred to SHEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SHEPD's principal activity is the distribution of electricity in the Scottish Hydro Electric region, owning, maintaining and operating the electricity network of some 52,000 kilometres of overhead lines and underground cables. SHEPD serves over 650,000 customers in a region which covers 54,900 square kilometres and includes northern mainland Scotland including the Highland and Grampian regions, parts of the Tayside, Central and Fife regions and rural parts of Strathclyde, together with all the Scottish islands including the Orkney and Shetland Islands and the Western Isles. The region has a population of approximately 1.2 million and a diversified customer base including domestic, commercial and industrial sectors.

The south of England electricity distribution business of SSE was transferred to SEPD on 1 October 2001 through a statutory transfer scheme under the Utilities Act 2000. SEPD's principal activity is the distribution of electricity in the Southern Electric region, owning, maintaining and operating the electricity network of some 76,000 kilometres of overhead lines and underground cables. SEPD serves around 2.8 million customers in a region which covers 16,900 square kilometres and includes the counties of Berkshire, Wiltshire, Dorset, Oxfordshire and Buckinghamshire. The region has a population of approximately 6 million and a diversified customer base including domestic, commercial and industrial sectors.

The electricity industry is subject to extensive legal and regulatory obligations and controls with which both SHEPD and SEPD must comply. SHEPD and SEPD are regulated by the Authority. The principal objective and duties of the Authority are described above. The general duties of an electricity distribution licence holder under the Electricity Act are to develop and maintain an efficient, co-ordinated and economical system of electricity distribution, and to facilitate competition in the supply and generation of electricity. Under the licence, where it is reasonable to do so, each of SHEPD and SEPD is under a statutory duty to connect any customer requiring electricity within its area and to maintain that connection. In each case, its licence may be terminated on 25 years' notice given by the Secretary of State and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

Each of SHEPD and SEPD is subject to control on the prices it can charge and the quality of supply it must provide. Their operations are regulated under their distribution licences pursuant to which income generated is subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current electricity distribution price control was agreed with OFGEM in November 2009 and commenced on 1 April 2010. This covers the five year period until 31 March 2015.

Gas distribution

Scotland Gas Networks plc and Southern Gas Networks plc (each a "**network**", together the "**networks**") are regulated by the Authority. The principal objective of the Authority, as set out under the Gas Act 1989, as amended by the Utilities Act 2000 and the Energy Acts 2004, 2008 and 2010 (the "**Gas Act**"), is to protect the interests of existing and future consumers in relation to gas conveyed through pipes; wherever appropriate by promoting effective competition. OFGEM provides the staff who support the role of the Authority and carry out the day to day activities of the statutory body. The duties of the Authority are described above.

The general duties of a gas transportation licence holder under the Gas Act are to develop and maintain an efficient and economical pipeline system for the conveyance of gas; so far as it is economical to do so, comply with any reasonable request for a connection to the system; facilitate competition in the supply of gas; and avoid any undue preference or undue discrimination in the provision of connections and in the conveyance of gas. The licence of each network may be terminated on 10 years' notice given by the Secretary of State and may be revoked immediately in certain circumstances including insolvency or failure to comply with an enforcement order made by OFGEM.

Each network is subject to control on the prices it can charge and the quality of service it must provide. The operations of each network are regulated under its gas transportation licences pursuant to which income generated is subject to a price cap regulatory framework that provides economic incentives to minimise operating, capital and financing costs. The current gas distribution price control commenced on

1 April 2008. This covers the five year period until 31 March 2013. The next full price control settlement will take effect from 1 April 2013 and will reflect the conclusions of Ofgem's detailed review of the future regulatory framework for energy networks.

USE OF PROCEEDS

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

TAXATION

The comments below which apply only to persons who are beneficial owners of the Securities concern only certain withholding obligations and reporting requirements with respect to the Securities and are of a general nature based on current United Kingdom law and HM Revenue & Customs practice and are not intended to be exhaustive. The comments below do not deal with any other United Kingdom taxation implications of acquiring, holding, or disposing of the Securities. Any Holders or Couponholders who are in doubt as to their own tax position should consult their professional advisers.

1 Interest on the Securities

While the Securities continue to be listed on a recognised stock exchange within the meaning of Section 1005 of the Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of income tax. 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 by the UK Listing Authority and are admitted to trading on the London Stock Exchange.

If the Securities cease to be listed interest will generally be paid by the Issuer under deduction of income tax at the basic rate unless:

- (a) when that interest is paid the Issuer reasonably believes that the person beneficially entitled to the interest:
 - (i) is a company resident in the United Kingdom;
 - (ii) is a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account the interest in computing its United Kingdom taxable profits; or
 - (iii) falls within one of various categories enjoying a special tax status (including charities and pension funds); or
 - (iv) is a partnership each member of which is a company referred to in (i), (ii) and/or (iii) above,and HM Revenue & Customs has not given a direction that the interest should be paid under deduction of tax;
- (b) the Issuer has received a direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

If any amount must be withheld by the Issuer on account of United Kingdom tax from payments of interest on the Securities then the Issuer will, subject to the provisions of Condition 12 of the relevant Securities, pay such additional amounts as will result in the Holders receiving an amount equal to that which they would have received had no such withholding been required.

Interest on the Securities 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 on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Holder who is not resident for tax purposes in the United Kingdom unless that Holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or for holders who are companies through a United Kingdom permanent establishment, in connection with which the interest is received or to which the Securities are attributable; there are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The provisions relating to additional payments referred to in Condition 12 of the relevant Securities would not apply if HM Revenue and Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Security directly to United Kingdom income tax. However, exemption from or reduction of such United Kingdom tax liability might be available under an applicable double taxation treaty.

Persons in the United Kingdom (i) paying interest to or receiving interest on behalf of another person who is an individual or (ii) paying amounts due on redemption of the Securities 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 receiving such amounts on behalf of another person who is individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries. However, in relation to amounts payable on redemption of such Securities HM Revenue & Customs published practice indicates HM Revenue & Customs will not exercise its power to obtain information where such amounts are paid or received on or before 5 April 2011.

2 EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg 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) with effect from the same date.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive. The proposal has been considered by the European Parliament and is under discussion by the European Council. If implemented, the changes may amend or broaden the scope of the requirements described above.

The attention of Holders is drawn to Condition 12 of the relevant Securities.

SUBSCRIPTION AND SALE

Barclays Bank PLC and The Royal Bank of Scotland plc (together, the “**Joint Structuring Advisers**”) and Banco Bilbao Vizcaya Argentaria, S.A., BNP Paribas, Credit Suisse Securities (Europe) Limited and Mitsubishi UFJ Securities International plc (together with the Joint Structuring Advisers, the “**Managers**”) have, pursuant to a Subscription Agreement dated 16 September 2010, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Euro Securities at 100 per cent. of their principal amount and the Sterling Securities at 100 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission and to the Joint Structuring Advisers a fee in relation to the structuring advice provided to the Issuer. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment in respect of the Securities being made to the Issuer.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act (“**Regulation S**”).

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

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

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the 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 Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; 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 Securities in, from or otherwise involving the United Kingdom.

Japan

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Managers has represented and agreed, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, of Japan or to, or for the benefit of, any resident in Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

General

Neither the Issuer nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer that would permit a public offering of the Securities, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Securities (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will, to the best of its knowledge, comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

GENERAL INFORMATION

1. The listing of the Securities on the Official List will be expressed as a percentage of their relevant nominal amount (exclusive of accrued interest). It is expected that listing of the Securities on the Official List and admission of the Securities to trading on the Market will be granted on or about 20 September 2010, subject only to the issue of the Temporary Global Security. Prior to official listing and admission to trading however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.
2. The issue of the Securities was authorised by a resolution of the board of directors of the Issuer passed on 22 July 2010 and a written resolution of the board of directors of the Issuer passed on 8 September 2010, respectively, and resolutions of a duly appointed committee of the board of directors of the Issuer passed on 27 August 2010 and 13 September 2010, respectively.
3. There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 March 2010 and no material adverse change in the prospects of the Issuer or of the Group since 31 March 2010.
4. Neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer and/or its Subsidiaries.
5. Each Security and Coupon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.
6. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). In respect of the Euro Securities, the International Securities Identification Number (“ISIN”) is XS0541656509 and the Common Code is 054165650, and in respect of the Sterling Securities, the ISIN is XS0540658688 and the common code is 054065868.

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

7. The Issuer intends (but is not obliged to ensure) that, to the extent that the relevant Securities provide the Issuer with “equity credit” for rating purposes by any Rating Agency (as defined in the Conditions of such Securities) immediately prior to any redemption effected in accordance with the Conditions of such Securities, it will repay the principal amount of such Securities to be so redeemed with the net proceeds received by the Issuer from the issuance, within a period of 12 months prior to the date set for such redemption, of securities for which the Issuer will receive the same, or higher amount of, “equity credit” (or such other nomenclature that the Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by such Rating Agency as at the time of such redemption.
8. At or around the time of issuance of the Securities, the Issuer will enter into the RCC for the benefit of holders of the Covered Debt. The Covered Debt will have the following characteristics: it (i) upon a liquidation, dissolution or winding-up of the Issuer, will rank, or the claims under the related guarantee or support agreement (if any) will rank, in priority to the Securities; (ii) will be assigned a rating by at least one internationally recognised rating agency; (iii) will have an outstanding principal amount of not less than £250,000,000 (or the foreign-currency equivalent thereof); and (iv) will be issued through, or with the assistance of, a commercial or investment banking firm or firms acting as underwriters, initial purchasers or placement or distribution agents.

The RCC will provide that, subject to certain exceptions, the Issuer shall not redeem or repurchase any Securities between the first business day following, but not including, the First Call Date and the termination of the RCC (in any event on the first business day immediately following the Interest Payment Date falling in October 2040 or (subject to certain conditions) earlier), unless such redemption or repurchase constitutes a Permitted Redemption or the applicable redemption or repurchase price (in each case excluding any amount paid in respect of interest) does not exceed the sum of:

- (a) 200% of the aggregate amount of net cash proceeds received by the Issuer within the Measurement Period from the allotment and sale of the Issuer's ordinary share capital, Qualifying Warrants or High Qualifying Securities to Persons other than the Issuer or its Subsidiaries; and
- (b) 100% of the aggregate amount of net cash proceeds received by the Issuer within the Measurement Period from the allotment and sale of Intermediate Qualifying Securities to Persons other than the Issuer or its Subsidiaries.

As used in this paragraph 8:

“High Qualifying Securities” are securities issued by or loans made to the Issuer or any Subsidiary of the Issuer that achieve, on issuance, “High Equity Content” (as defined by Standard & Poor's) or such other similar nomenclature as may be employed by Standard & Poor's from time to time.

“Intermediate Qualifying Securities” are securities issued by or loans made to the Issuer or any Subsidiary of the Issuer that achieve, on issuance, “Intermediate Equity Content” (as defined by Standard & Poor's) or such other similar nomenclature as may be employed by Standard & Poor's from time to time.

“Measurement Period” means, with respect to any redemption or repurchase of Securities, the 12 month period preceding the date of such redemption or repurchase and ending on (and including) such date.

“Permitted Redemption” means any redemption or repurchase of the relevant Securities during a fiscal year, whereby the amount of “equity credit” (as defined by Standard & Poor's) removed by the reduction in principal amount of the Securities outstanding as a result of such redemption or repurchase and all other (if any) redemption or repurchase of any Securities during such fiscal year, together with the amounts (if any) spent for the repurchase of the Issuer's ordinary shares by the Issuer or on its behalf, during such fiscal year, does not exceed 10% of the principal amount of such Securities and any other loans made to or securities issued by the Issuer (for the avoidance of doubt, except for ordinary shares of the Issuer) which attract at least the same level of “equity credit” (or such other nomenclature that Standard & Poor's may use from time to time to describe the degree to which an instrument exhibits the characteristics of an ordinary share) from Standard & Poor's, in each case outstanding as at the start of such fiscal year.

“Person” means any individual, corporation, partnership, joint venture, trust, limited liability company or corporation, unincorporated organisation or government or any governmental agency or political subdivision thereof.

“Qualifying Warrants” are warrants to purchase ordinary shares of the Issuer that (a) have an exercise price that is greater than the current market price of such ordinary shares as at the date on which such warrants are priced, and (b) are not redeemable for cash by the Issuer under any circumstances.

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

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, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the specified office of any of the Paying Agents:
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the published annual report and audited consolidated financial statements of the Issuer for the financial years ended 31 March 2009 and 31 March 2010, respectively;
 - (c) a copy of this Prospectus together with any Supplement to this Prospectus or further Prospectus; and
 - (d) the Subscription Agreement, the Trust Deeds dated the Issue Date between the Issuer and the Trustee relating to each Tranche and the Paying Agency Agreements dated the Issue Date between the Issuer, the Trustee and the agents named therein relating to each Tranche.

This Prospectus will be published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/en-gb/pricenews/marketnews.

- 10.** KPMG Audit Plc, Chartered Accountants (regulated by the Institute of Chartered Accountants of England and Wales) rendered unqualified audit reports on the consolidated financial statements of the Issuer for the financial years ended 31 March 2009 and 31 March 2010, respectively.
- 11.** For the First Fixed Rate Interest Period, the yield on the Euro Securities will be 5.025 per cent. per annum and the Sterling Securities will be 5.453 per cent. per annum. The yield is calculated at the Issue Date on the basis of the relevant Issue Price. It is not an indication of future yield.
- 12.** The expenses related to the admission of the Securities to the Official List and to trading on the Market are estimated to amount to £7,275.

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