

≡ Scottish and Southern Energy plc

Scottish and Southern Energy plc

(Incorporated in Scotland with limited liability under registered number 117119)

£250,000,000

5.875 per cent. Bonds due 2022

Issue Price: 99.092 per cent.

Merrill Lynch International

Barclays Capital

Dresdner Kleinwort Benson

Warburg Dillon Read

Credit Suisse First Boston

Greenwich NatWest

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Bonds to be admitted to the Official List. Copies of this document, which comprises listing particulars prepared in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 by the London Stock Exchange, have been delivered for registration to the Registrar of Companies in Scotland as required by Section 149 of that Act.

The Bonds are expected to be assigned on issue a rating of A+ by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc. and a rating of Aa3 by Moody's Investors Services, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Interest will be payable annually in arrear on 22 September in each year and will be at a rate of 5.875 per cent. per annum, except that the first payment of interest, to be made on 22 September 1999, will be in respect of the period from and including 22 March 1999 to but excluding 22 September 1999, as described under "Terms and Conditions of the Bonds – Interest". Payments of principal of, and interest on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes, as described under "Terms and Conditions of the Bonds – Taxation".

The Bonds mature on 22 September 2022 and may not be redeemed prior thereto, except as mentioned below. The Bonds are subject to redemption in whole (but not in part), at the option of the Issuer, (i) at their principal amount together with accrued interest in the event of certain changes affecting taxes of the United Kingdom and (ii) at the amounts and in the circumstances set out in Condition 6(c). See "Terms and Conditions of the Bonds – Redemption and Purchase". Upon the occurrence of certain events, as described under "Terms and Conditions of the Bonds – Redemption at the Option of Bondholders", the holders of the Bonds may require the Issuer to redeem or, at its option, purchase (or procure the purchase of) the Bonds at their principal amount (plus accrued interest, if any).

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond"), without interest coupons, which will be deposited with a common depository on behalf of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedelbank on or about 22 March 1999. The Temporary Global Bond will be exchangeable for interests in a permanent global bond (the "Global Bond"), without interest coupons, on or after a date which is expected to be 2 May 1999 upon certification as to non-U.S. beneficial ownership. The Global Bond will be exchangeable for definitive Bonds ("Definitive Bonds") in bearer form in the denominations of £1,000, £10,000 and £100,000 in the circumstances set out in it. See "Summary of Provisions relating to the Bonds while in Global Form".

Scottish and Southern Energy plc (the "Company" or the "Issuer") accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person has been authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by the Issuer or any Manager (as defined under "Subscription and Sale"). This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Managers to subscribe for or purchase, any of the Bonds. Neither the delivery of this Offering Circular nor any subscription, sale or purchase made in connection herewith shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Issuer and its subsidiaries since the date hereof.

The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about, and to observe, any such restrictions.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on offerings and sales of Bonds and on distribution of this Offering Circular, see "Subscription and Sale".

In this Offering Circular, references to “pounds”, “sterling”, “pence” or “p” are to the lawful currency of the United Kingdom. References in this Offering Circular to “TWh” are to thermowatt hours.

In connection with this issue, UBS AG, acting through its division Warburg Dillon Read may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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Terms and Conditions of the Bonds

The following is the text of the terms and conditions of the Bonds which (subject to amendment and other than paragraphs in italics) will be endorsed on each Bond in definitive form:

The £250,000,000 5.875 per cent. Bonds due 2022 (the “Bonds”, which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of Scottish and Southern Energy plc (the “Issuer”) are constituted by a trust deed (the “Trust Deed”) dated 22 March 1999 between the Issuer and Chase Manhattan Trustees 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 Bonds (the “Bondholders”). The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 12 January 1999 and by resolutions of a duly authorised committee of the board of directors of the Issuer passed on 25 February 1999 and on 18 March 1999, respectively. The Bonds are, on issue, listed on the London Stock Exchange Limited (the “London Stock Exchange”). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed, which includes the form of the Bonds and the interest coupons relating to them (the “Coupons”). Copies of the Trust Deed and of an agency agreement dated 22 March 1999 (the “Paying Agency Agreement”) made between the Issuer, The Chase Manhattan Bank as principal paying agent (the “Principal Paying Agent”, which expression shall include any successor in such capacity), the other paying agents named therein (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Bondholders and the holder of the Coupons appertaining to the Bonds (the “Couponholders”) at the principal office for the time being of the Trustee, being at the date of issue of the Bonds at Trinity Tower, 9 Thomas More Street, London E1 9YT, and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement.

Defined terms in these Terms and Conditions shall have the meanings given to them in Condition 18.

1. Form, Denominations and Title

The Bonds are in bearer form, serially numbered, in the denominations of £1,000, £10,000 and £100,000 each with Coupons attached on issue. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination may not be exchanged for Bonds of another denomination.

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Bond and the holder of any Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership, trust or any interest in it or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon).

2. Status

The Bonds and the Coupons are direct, unconditional and, subject to the provisions of Condition 3, unsecured obligations of the Issuer and, subject as aforesaid, rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. Negative Pledge

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

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

save that the Issuer or any Relevant Subsidiary may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer or any Relevant Subsidiary in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Bonds, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness has an initial maturity falling after 22 September 2022 and is of a maximum aggregate amount outstanding at any time not exceeding the greater of £250,000,000 and 20 per cent. of the Capital and Reserves or (2) such Security Interest is provided in respect of a company becoming a Subsidiary of the Issuer after 19 March 1999 and where such Security Interest existed at the time that company becomes a Subsidiary of the Issuer (provided that such Security Interest was not created in contemplation of that company becoming a Subsidiary of the Issuer and the principal amount secured at the time of that company becoming a Subsidiary of the Issuer is not subsequently increased).

4. Interest

The Bonds bear interest from (and including) 22 March 1999 at the rate of 5.875 per cent. per annum, payable annually in arrear on 22 September in each year (each an "Interest Payment Date"), except that the first payment of interest, to be made on 22 September 1999, will be in respect of the period from and including 22 March 1999 to but excluding 22 September 1999 and will amount to £29.38 per £1,000 principal amount of Bonds. All amounts of interest due on each Bond will be rounded upwards, if necessary, to the nearest penny.

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

If interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Payments

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

Payments will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Bondholders or the Couponholders in respect of such payments.

Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, the proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which the Coupon would have become void pursuant to Condition 9, but not thereafter.

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not be entitled to any further interest or other payment if a Presentation Date is after the due date.

The names of the initial Paying Agents and their specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents approved by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange, shall be London or such other place as the London Stock Exchange may approve and one of which shall have a specified office in mainland Europe in a country which is not a member of the European Community. Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

If definitive Bonds are to be issued, as provided in the Global Bond, where the number of Coupons to be attached to each definitive Bond represent an amount greater than the principal amount of such Bond, the Trustee may agree with the Issuer such changes to these Terms and Conditions of the Bonds and the Global Bond so as to provide for the issue of definitive Bonds with a lesser number of Coupons, together with a talon for further Coupons in order to ensure that the amount represented by the Coupons to be attached to each definitive Bond is not greater than the principal amount of such Bonds.

6. Redemption and Purchase

- (a) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 22 September 2022.
- (b) If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 19 March 1999, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall, in the absence of manifest error, accept such certificate and opinion as sufficient evidence thereof) of (i) a certificate signed by two directors of the Issuer on behalf of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective)), the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at their principal amount together with interest (if any) accrued to (but excluding) the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay such additional amounts were a payment in respect of the Bonds then due.

Upon the expiry of any such notice as is referred to above (and subject as provided above), the Issuer shall be bound to redeem the Bonds at their principal amount together with interest (if any) accrued to but excluding the redemption date.

- (c) The Issuer may at its option, having given not less than 30 nor more than 90 days' notice to the Bondholders in accordance with Condition 14 (which shall be irrevocable), redeem all, but not some only, of the Bonds at any time:
- (i) at their principal amount if the principal amount of the Bonds outstanding at the time such notice is given is £15,000,000 or less; or
 - (ii) at the price which shall be the higher of the following:
 - (A) the principal amount thereof; and

(B) that price (the “Redemption Price”), expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of the 8 per cent. Treasury Stock 2021 or of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers obtained by the Issuer operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the “Reference Stock”) on the basis of the middle market price of the Reference Stock prevailing at or about 3.00 p.m. (London time) on such dealing day, as determined by UBS AG, acting through its division Warburg Dillon Read (or such other person(s) as the Trustee may approve). Any reference in these Terms and Conditions to principal shall be deemed to include any sum payable as the Redemption Price. The “Gross Redemption Yield” on the Bonds and the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18 or on such other basis as the Trustee may approve,

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

- (d) The Issuer or any of its Subsidiaries may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike. The Bonds so purchased, while held by or on behalf of the Issuer or any of its Subsidiaries, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of Conditions 7(b), 10, 11 or 15(a) or otherwise as provided in the Trust Deed.
- (e) All Bonds which are redeemed by the Issuer will forthwith be cancelled (together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds) and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be held or reissued or resold or surrendered for cancellation.

7. Redemption at the Option of Bondholders

- (a) (i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and prior to the commencement of or during the Restructuring Period an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition 7 shall cease to have any further effect in relation to such Restructuring Event.
- (ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to Condition 7(a)(i)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs the Bonds are rated, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (ii) if at such time the Bonds are not rated, a Negative Rating Event also occurs; and
 - (B) an Independent Financial Adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a “Negative Certification”),

then, unless at any time the Issuer shall have given a notice under Condition 6(b) or 6(c), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the “Put Option”) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Bond on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

An event shall be deemed not to be a Restructuring Event if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Bonds by any Rating

Agency is subsequently increased to, or, as the case may be, there is assigned to the Bonds an investment grade rating (BBB-/Baa3 or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

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

- (b) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a Put Event has occurred, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day in London and in the place of such specified office falling within the period (the "Put Period") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being the fifteenth day or if such day is not a Business Day the next following day which is a Business Day in London after the date of expiry of the Put Period, failing which an amount equal to the face value of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 5 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time before the expiry of ten years after the Relevant Date in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies an account with a bank in London in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 9, 10, 11, 12, 13, 14, 15 and 19 and for certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.
- (d) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
- (e) The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or such other event has occurred. The Trust Deed also provides that in determining whether or not a Restructuring Event has occurred, the Trustee may rely solely on an opinion given in a certificate signed by two directors of the Issuer.

8. Taxation

All payments in respect of the Bonds by the Issuer 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 or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

- (a) to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days, assuming, whether or not such is in fact the case, such last day to be a Presentation Date; or
- (d) to, or to a third party on behalf of, a holder to whom payment could have been made without any such withholding or deduction had such a holder made a declaration of non-residence or made any other claim or filing for exemption to which it is entitled to the relevant tax authority or Paying Agent.

As used herein, "Relevant Date" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to the Bondholders by the Issuer in accordance with Condition 14.

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

9. Prescription

Bonds and Coupons will become void unless presented for payment within periods of ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall, subject to being indemnified to its satisfaction, (but, in the case of the happening of any of the events mentioned in sub-paragraphs (b), (c), (e), (f), (g) and (h) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer that the Bonds are, and they shall accordingly thereby forthwith become, immediately due and repayable at their principal amount together with accrued interest (as provided in the Trust Deed) if any of the following events (each an "Event of Default") shall have occurred (unless such Event of Default has been remedied to the satisfaction of the Trustee):

- (a) if default is made for a period of 14 days or more in the payment of any principal or the purchase price due in respect of any Bond pursuant to Condition 7 or 21 days or more in the payment of any interest due in respect of the Bonds or any of them; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee of notice on the Issuer requiring the same to be remedied; or

- (c) if (i) any other indebtedness for borrowed money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or for any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent. of Capital and Reserves, and for the purposes of this sub-paragraph (c), “indebtedness for borrowed money” shall exclude Project Finance Indebtedness; or
- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Bondholders) or by an Extraordinary Resolution of the Bondholders; or
- (e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (B) the terms of which have previously been approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed having regard to the interests of Bondholders) or by an Extraordinary Resolution of the Bondholders; or
- (f) if the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member or members of the Group (other than an Excluded Subsidiary) or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm’s length basis or (iii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, provided that if neither the Issuer nor any Relevant Subsidiary holds an Electricity Licence, the Issuer shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) shall apply); or
- (g) if the Issuer or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Section 1 of the Insolvency Act 1986; or
- (h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or any encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit).

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

11. Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons but it shall not be bound to take any proceedings or any other action in relation to the Trust Deed, the Bonds or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.

12. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of any Relevant Subsidiary or Subsidiaries and/or any wholly-owned Subsidiary or Subsidiaries (other than an Excluded Subsidiary) of the Issuer (jointly and severally in the case of one or more such Subsidiaries) subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer, (b) such Subsidiary or Subsidiaries holding all the Issuer Licences or, if and to the extent that such Subsidiary or Subsidiaries and/or the Issuer do or does not hold all the Issuer Licences, an unconditional and irrevocable guarantee in respect of the Bonds being provided by one or more Relevant Subsidiaries and/or wholly-owned Subsidiaries of the Issuer which hold or together hold all the Issuer Licences not so held by such Subsidiary or Subsidiaries and/or the Issuer, (c) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution and (d) certain other conditions set out in the Trust Deed being complied with. Where the Bonds are to have the benefit of a guarantee provided by the Issuer and/or one or more Relevant Subsidiaries and/or wholly-owned Subsidiaries as aforesaid, such guarantee shall be on a joint and several basis.

13. Replacement of Bonds and Coupons

If any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Paying Agent in London subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Notices

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published 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 an English language daily newspaper with general circulation in Europe. Any notice shall be deemed to have been given on the date of publication or, if so published more than once, on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

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

15. Meetings of Bondholders, Modification, Waiver and Authorisation

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Bonds held or represented by him or them, except

that at any meeting, the business of which includes modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

- (b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders and Couponholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error. The Trust Deed contains, in addition, provisions permitting but not requiring the Trustee to agree, without the consent of the Bondholders or Couponholders, on or after the Specified Date (as defined below) to such modifications to the Bonds, the Coupons and the Trust Deed in order to facilitate payment of interest in euro and redemption at the euro equivalent of the sterling principal amount of the Bonds and associated reconventioning, renominatisation and related matters as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Trustee to be in conformity with then applicable market conventions) provided that the Issuer shall be under no obligation to make any such proposals. For these purposes, "Specified Date" means the date on which the United Kingdom participates in the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community or otherwise participates in European Economic and Monetary Union in a similar manner.
- (c) In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (d) Any modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

17. Further Issues

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

18. Definitions

For the purposes of these Terms and Conditions:

“Business Day” means, in relation to any place, a day on which commercial banks and foreign exchange markets generally settle payments in that place;

“Capital and Reserves” means the aggregate of:

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

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with generally accepted accounting principles in the United Kingdom, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate. A report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties;

“Composite Licence” means the document dated 28 March 1990 containing the Generation, Transmission and SSE PES Licences granted to the Issuer by the Secretary of State under the Electricity Act;

“Director General of Electricity and Gas Supply” means, *inter alia*, the officer appointed for the purpose of carrying out the functions assigned or transferred to him by the Electricity Act;

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

“Electricity Licence” means any licence granted or issued by any relevant authority or person in the United Kingdom or by or pursuant to any primary or secondary legislation which entitles the person holding such licence to generate and/or transmit and/or distribute and/or supply electricity (other than a second tier supply licence) in the United Kingdom or any part thereof;

“Excluded Subsidiary” means any Subsidiary of the Issuer:

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

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

“Generation Licence” means the electricity generation licence granted by the Secretary of State to the Issuer under the Electricity Act as comprised in the Composite Licence as in effect on 19 March 1999;

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

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

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

“Issuer Licences” means the Generation Licence, the Transmission Licence and the SSE PES Licence and, in any case, and from time to time any other licence or licences relating to the generation, transmission, distribution and/or supply of electricity granted to the Issuer and/or any Relevant Subsidiary and/or wholly-owned Subsidiary as contemplated pursuant to paragraph (A) of the definition of “Restructuring Event” below, and “Issuer Licence” shall be construed accordingly;

A “Negative Rating Event” shall be deemed to have occurred if (A) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being);

“Pooling and Settlement Agreement” means the agreement dated 30 March 1990 (as amended and restated as at 22 April 1994) made by the Issuer with The National Grid Company plc and others setting out the rules and procedures for the operation of an electricity trading pool and of a settlement system and, while the same has effect, the Initial Settlement Agreement also dated 30 March 1990 and made between the same parties, in each case as in force on 19 March 1999;

“Presentation Date” means a day which:

- (i) is or falls after the relevant due date, but, if the due date is not or was not a Business Day in London, is or falls after the next following such Business Day; and
- (ii) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment and, in the case of payment by transfer to a sterling account in London as referred to in these Conditions, in London;

“Principal Subsidiary” at any time shall mean:

- (A) any Relevant Subsidiary; or
- (B) any Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer at least 90 per cent. in principal amount of whose indebtedness for borrowed money is Project Finance Indebtedness):
 - (i) whose (a) profits on ordinary activities before tax or (b) net assets represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or, as the case may be, consolidated net assets of the Group, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary and the then latest audited consolidated financial statements of the Group provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Group relate, the reference to the then latest audited consolidated financial statements of the Group for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial

statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors after consultation with the Issuer; or

- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary of the Issuer on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (i) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (ii).

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

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

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

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

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

“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 either 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);

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

“Relevant Group Member” means the Issuer and/or any member of the Group that holds a Relevant Licence;

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

“Relevant Licences” means the Generation Licence, the Transmission Licence, the SSE PES Licence and the Southern PES Licence and, in any such case, and from time to time any other licence or licences relating to the generation, transmission, distribution and/or supply of electricity granted to the Issuer and/or any wholly-owned Subsidiary as contemplated pursuant to paragraph (A) of the definition of Restructuring Event and “Relevant Licence” shall be construed accordingly;

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

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

(A) (aa) the Secretary of State gives the Issuer or any Subsidiary of the Issuer written notice of revocation of any Relevant Licence (excluding, in relation to the Issuer or Southern any second tier supply licences and provided that the giving of notice pursuant to paragraph 3 of Part 1 of the SSE PES Licence or the Southern PES Licence as in effect on 19 March 1999 or any other similar provision in any other Relevant Licence, shall not be deemed to constitute the revocation of the Relevant Licence); or

(bb) the Issuer or any Subsidiary of the Issuer agrees in writing with the Secretary of State to any revocation or surrender of any Relevant Licence; or

(cc) any legislation (whether primary or subordinate) is enacted terminating or revoking any Relevant Licence,

except in any such case in circumstances where (x) a licence or licences on substantially not less favourable terms is or are granted to the Issuer or one or more Relevant Subsidiaries or wholly-owned Subsidiaries (not being an Excluded Subsidiary) of the Issuer or one or more Relevant Subsidiaries and (y) in the case of the grant of a licence or licences to one or more wholly-owned Subsidiaries of the Issuer, such Subsidiary or Subsidiaries at the time of such grant either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds (jointly and severally where appropriate) in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes a primary obligor under the Bonds (jointly and severally where appropriate) in accordance with Condition 12; or

(B) any modification (other than a modification which is of a formal, minor or technical nature) is made to the terms and conditions of any Relevant Licence on or after 19 March 1999 unless two directors of the Issuer have certified in good faith to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Group and to the business of the member of the Group holding the Relevant Licence; or

(C) (aa) the Pooling and Settlement Agreement is terminated under Clause 67.4 thereof and not replaced by one or more agreements, commercial arrangements or open market mechanisms or frameworks, in each case on terms which two directors of the Issuer certify in good faith to the Trustee to be not

materially less favourable to the business of the Group or to the business of the Relevant Group Member or Members party to the Pooling and Settlement Agreement; or

- (bb) any Relevant Group Member is given notice pursuant to Clause 67.3.2 of the Pooling and Settlement Agreement requiring it to cease to be a party thereto; or
- (cc) any notice declaring an event of default (as defined in the Pooling and Settlement Agreement) is given to any Relevant Group Member under Clause 66.1.1 or 66.2 thereof and such default remains unremedied or unwaived; or
- (dd) any modification (other than a modification which is of a formal, minor or technical nature) is made to the Pooling and Settlement Agreement on or after 19 March 1999 unless two directors of the Issuer have certified in good faith to the Trustee that any such modification has not had and will not have a materially adverse effect on the financial rights and obligations of any Relevant Group Member under the Pooling and Settlement Agreement or a materially adverse effect on the business of the Group or the business of any Relevant Group Member party to the Pooling and Settlement Agreement, provided that any such modification shall, to the extent it grants or confers powers or discretions on the Director General of Electricity and Gas Supply (or any successor) under or in respect of the Pooling and Settlement Agreement, be deemed not to have a materially adverse effect as aforesaid, but for the avoidance of doubt any modification to the Pooling and Settlement Agreement made by the Director General of Electricity and Gas Supply (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would have a materially adverse effect as provided above shall not by virtue of this sub-paragraph be deemed not to have such an effect; or
- (ee) any Relevant Group Member ceases to be a party to the Pooling and Settlement Agreement for any other reason (other than pursuant to (bb) and (cc) above) except where a licence or licences is or are granted to one or more wholly-owned Subsidiaries as contemplated by sub-paragraph (A) above and at or about the same time all rights and obligations of the Relevant Group Member pursuant to the Pooling and Settlement Agreement which are attributable to such licence(s) are assigned and transferred to such Subsidiary and/or Subsidiaries in such manner as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or such Subsidiary or Subsidiaries enters or enter into one or more agreements, commercial arrangements or open market mechanisms or frameworks in relation to such licence(s) which two directors of the Issuer certify to be not materially less favourable to the business of the Group; or
- (D) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State and/or the Director General of Electricity and Gas Supply under Section 3 of the Electricity Act as in force on 19 March 1999 unless two directors of the Issuer have certified in good faith to the Trustee that such removal, qualification or amendment is unlikely to have a materially adverse effect on the financial condition of the Group or any Relevant Group Member;

“Restructuring Period” means:

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

“Secretary of State” means the Secretary of State for Scotland (or any successor) or, as the case may be, the Secretary of State for Trade and Industry;

“Southern” means Southern Electric plc;

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“Southern PES Licence” means the public electricity supply licence granted by the Secretary of State to Southern under the Electricity Act (but for the avoidance of doubt excluding for this purpose any second tier licence) as in effect on 19 March 1999;

“SSE PES Licence” means the public electricity supply licence granted by the Secretary of State to the Issuer under the Electricity Act (but for the avoidance of doubt excluding for this purpose any second tier licence) as comprised in the Composite Licence as in effect on 19 March 1999;

“Subsidiary” means a subsidiary within the meaning of Section 736 of the Companies Act 1985;

“Subsidiary Undertaking” shall have the meaning given to it by Section 258 of the Companies Act 1985 (but, in relation to the Issuer, shall exclude any undertaking (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date);

“Transmission Licence” means the electricity transmission licence granted by the Secretary of State to the Issuer under the Electricity Act as comprised in the Composite Licence as in effect on 19 March 1999; and

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

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

19. Governing Law and Jurisdiction

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Trust Deed, the Bonds or the Coupons and accordingly any legal action or proceedings arising out of or in connection therewith (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has agreed to procure that Clifford Chance Secretaries Limited, whose address is 200 Aldersgate Street, London EC1A 4JJ, will act as its agent in England to receive, for it and on its behalf, service of process in any proceedings in such courts.

Use of Proceeds

The net proceeds of the issue of the Bonds, which are expected to amount to approximately £246,167,500, will be used by the Issuer and its subsidiaries for general corporate purposes.

Summary of Provisions relating to the Bonds while in Global Form

The Temporary Global Bond and the Global Bond contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the terms and conditions of the Bonds set out in this document. The following is a summary of certain of those provisions:

1. Exchange

The Temporary Global Bond is exchangeable in whole or in part for interests in the Global Bond on or after a date which is expected to be 2 May 1999 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Bond. The Global Bond is exchangeable in whole but not, in part (free of charge to the holder) for the Definitive Bonds described below if the Global Bond 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 Trustee of its intention to exchange the Global Bond for Definitive Bonds on or after the Exchange Date specified in the notice.

On or after the Exchange Date (as defined below) the holder of the Global Bond may surrender the Global Bond to or to the order of the Principal Paying Agent. In exchange for the Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), 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 Global Bond, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Bonds.

“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.

2. Payments

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Bonds. No person shall however be entitled to receive any payment on the Global Bond falling due after the Exchange Date, unless exchange of the Global Bond for Definitive Bonds is improperly withheld or refused by or on behalf of the Issuer.

3. Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of a clearing system, notices to Bondholders 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 and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

5. Meetings

The holder of the Global Bond will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Bonds for which the Global Bond may be exchanged.

6. Purchase and Cancellation

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

7. Trustee's Powers

In considering the interests of Bondholders while the Global Bond 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 Global Bond and may consider such interests as if such accountholders were the holder of the Global Bond.

8. Put Option

The Bondholders' put option in Condition 6 may be exercised by the holder of the Global Bond giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Bond for endorsement of exercise within the time limits specified in Condition 6.

Scottish and Southern Energy plc

Scottish and Southern Energy plc was formed by the merger of Scottish Hydro-Electric plc (“Scottish Hydro”) and Southern Electric plc (“Southern Electric”) by means of a share for share offer by Scottish Hydro for Southern Electric shares (the “Merger”). The Merger was declared unconditional on 14 December 1998 (the “Merger Date”) when Scottish Hydro was renamed Scottish and Southern Energy plc.

The Issuer’s principal activities are the generation, transmission, distribution and supply of electricity in Scotland, England and Wales. Southern Electric is the Issuer’s principal subsidiary, which itself has subsidiary undertakings engaged in electricity generation, gas trading, electrical and utility contracting and related activities and distributes and supplies electricity in its authorised area across south central England. Other subsidiaries of the Issuer are engaged in related electricity generation, distribution, supply and contracting activities.

Extracts from the annual accounts are set out on pages 27 to 32 and show the results of the Issuer and Southern Electric for the three years ended 31 March 1998. Also set out on pages 33 to 35 are the unaudited interim statements of each of the Issuer and Southern Electric, prepared on the basis of accounting policies that would have been adopted by each of the Issuer and Southern Electric for the year ending 31 March 1999 in the absence of the Merger.

Information on the Scottish Hydro-Electric Group

The principal activities of Scottish Hydro and its consolidated subsidiaries as at the Merger Date (the “Scottish Hydro-Electric Group”) were the generation, transmission, distribution and supply of electricity to industrial, commercial, domestic and wholesale customers. Scottish Hydro holds a Generation Licence and the Transmission and PES Licence (each as defined below) for the north of Scotland, and second tier electricity licences to supply electricity throughout the rest of Great Britain. The Scottish Hydro-Electric Group has generation capacity in both Scotland and England.

In the financial year ended 31 March 1998, turnover of the Scottish Hydro-Electric Group was £1,035 million (1997: £951 million) and profit on ordinary activities before taxation was £213 million (1997: £205 million). Shareholders’ funds of the Scottish Hydro-Electric Group as at 31 March 1998 were £943 million.

The trading performance of the Scottish Hydro-Electric Group in the current year to date has been satisfactory and in line with management expectations.

Licences:

Transmission Licence	a licence granted under the Electricity Act 1989 (the “Electricity Act”) to transmit electricity for the purpose of giving a supply or enabling a supply to be given to any premises.
PES Licence	a licence granted under the Electricity Act to supply electricity as a public electricity supplier to any premises within the authorised supply area specified in that licence.
Generation Licence	a licence granted under the Electricity Act to generate electricity for the purpose of giving a supply or enabling a supply to be given to any premises.

Information on the Southern Electric Group

The principal activities of Southern Electric plc and its consolidated subsidiaries as at the Merger Date (the “Southern Electric Group”) were the distribution and supply of electricity to industrial, commercial and domestic customers; electricity generation; electrical and utility contracting; environmental control systems; and gas supply. The Southern Electric Group is one of the two largest regional electricity companies in England and Wales and distributes electricity to approximately 2.6 million customers in its franchise area across central southern England. Southern Electric holds the PES Licence for central southern England and second tier electricity licences to supply electricity throughout the rest of Great Britain.

In the financial year ended 31 March 1998, turnover of the Southern Electric Group was £1,774 million (1997: £1,767 million) and profit on ordinary activities before taxation was £249 million (1997: £256 million). Shareholders' funds of the Southern Electric Group as at 31 March 1998 were £697 million.

The trading performance of the Southern Electric Group in the current year to date has been satisfactory and in line with management expectations.

Background to and reasons for the Merger

The Issuer and its subsidiaries (the "Merged Group") are committed to delivering a first-class service to its customers and creating value for shareholders. The Board of Directors of both Scottish Hydro and Southern Electric believed that both companies had a successful record of achieving these objectives in the period since their respective privatisation and that, against the background of significant changes in the regulatory and competitive environment in which both Scottish Hydro and Southern Electric operated, a combination of the two entities would enhance their ability to provide an efficient and effective service to customers, and would create a more powerful base from which to achieve continued growth.

The Merger has created one of the U.K.'s leading energy companies, founded upon broadly based electricity supply, generation and distribution businesses.

The Merged Group's combined market capitalisation as at 25 February 1999 was approximately £5.1 billion, and the Issuer is a constituent of the FT-SE 100 index as at that date.

Following the Merger, the Merged Group is one of the U.K.'s largest suppliers of electricity to domestic and business customers and the economies of scale derived from the Merger enhance the ability of the Merged Group to compete effectively for new business in the final stages of the opening-up of the electricity supply market to competition. In addition, the Merged Group will be able to build upon the existing gas supply business of Southern Electric using the gas purchasing and trading expertise of the Issuer.

As a result of the greater capabilities of the Merged Group, as both a supplier of and customer for energy, it will benefit from a greater ability to manage its trading risk.

The Board of Directors of the Issuer (the "Board") estimates that the net generation output of the Merged Group will be approximately 13.2 TWh in Scotland and 23.2 TWh in England and Wales by 1999/2000. The Board believes that the combination of Scottish Hydro's experience in growing a diverse portfolio of generation assets with Southern Electric's project and embedded generation activities will create a stronger competitor in generation, with the resources and expertise to develop new generation projects and exploit the opportunities which arise in the U.K. generation market.

The Merged Group's two distribution networks will together serve some 3.3 million customers and the Board believes that the Merged Group is well placed to achieve increased efficiency based on sharing the expertise of the Scottish Hydro and Southern Electric businesses and exploiting the enhanced purchasing power caused by the Merger. The implementation of best practice in network operations and management should also further enhance network reliability for the Merged Group's customers.

The Board believes that the Merged Group will also benefit over time from substantial cost savings. These savings will result from the elimination of duplicated information technology and customer service costs; the combination and more efficient operation of common support services; the capture of efficiencies in purchasing and the rationalisation of head office and other functions at group level. For example, Southern Electric recently introduced a new customer service system which will give the Merged Group the opportunity to save costs by migrating both Southern Electric's and the Issuer's domestic and business customers onto a single system.

In addition, the Merged Group will have greater capacity to take advantage of investment opportunities in the energy market.

Dividends

The Board intends that dividend payments by the Issuer will initially reflect Southern Electric's pre-Merger dividend level and policy, which is to achieve a real increase in dividends of between 5 and 8 per cent. in respect

of the current financial year and the financial year ending 31 March 2000. Thereafter, dividends will reflect the performance and prospects of the Merged Group.

Board of Directors of the Issuer

The present members of the Board of Directors of the Issuer, all of 10 Dunkeld Road, Perth PH1 5WA, are as follows:

Name	Title	Significant Outside Activities
Lord Wilson of Tillyorn	Chairman*	Martin Currie Pacific Trust PLC
Dr Bruce Farmer	Deputy Chairman*	Devro plc Scapa Group plc The Morgan Crucible Company plc Electricity Association Limited
Jim Forbes	Chief Executive	None
David Gray	Business Development Director	Barking Power Limited Medway Power Limited Sabre Power Limited
Dr Jim Hart	Commercial Director	None
Ian Marchant	Finance Director	Fellside Heat and Power Limited Seabank Power Limited
Dr James Martin	Generation Director	None
Ian McMillan	Power Systems Director	CHPA Agency Limited Scottish Electricity Settlements Limited Seabank Power Limited
David Sigsworth	Energy Trading Director	Henley Festival Limited The Henley College
Henry Casley	Director*	Crown Estates Commissioners East of Scotland Farmers Limited NFU Mutual & Avon Group
Ian Grant	Director*	Locate in Kent Limited South East Regional Investment Limited
Sir Graeme Odgers	Director*	None
David Payne	Director*	Aegon UK plc Deltec International S.A. DHW Limited Greenwich Associates International Markets Advisory Board of National Association of Securities Dealers Inc. Keysec Ltd MEPSEC Limited
Peter Stormonth Darling	Director*	He is also director of a number of companies within the Mercury Asset Management and MITSEC groups Sagitta Asset Management Limited Sagitta Investment Advisers Limited The Europe Fund Inc. Anna Morris Limited Baronsmead VCT 2 Plc County Buildings Protection Trust Limited Leisure Pursuits Limited Lloyd Lindsay Rooms Limited
Nick Timpson	Director*	

* Denotes non-executive director.

All the executive Directors are employed on a full-time basis.

Messrs Forbes and Marchant have moved to Scotland and together with Dr Hart will be entering into new service contracts with the Issuer on terms no less favourable than under their prior contracts with Southern Electric.

Assurances Given to the Secretary of State for Trade and Industry

Immediately prior to the Merger, Scottish Hydro gave certain assurances to the Secretary of State which are set out below.

Of these assurances, 1 to 10 and 18 place a continuing responsibility on the Issuer to ensure that Southern Electric continues to meet its responsibilities under the regulatory regime maintained under the Electricity Act.

Assurance 11 requires that non-electricity activities and generation activities of the Merged Group be moved to separate corporate subsidiaries of the Issuer over a period of three years. Southern Electric is commencing this process by transferring its electricity generating subsidiaries to the Issuer.

Assurance 12 requires that the supply and distribution activities of both the Issuer and Southern Electric are placed under separate management. This may lead to these activities being placed in separate corporate entities *from the Issuer which have separate licences*.

Assurances 13 to 17 require that the Merged Group ensure its electricity trading activities remain on a commercial basis, and to minimise the risk of cross subsidisation between regulated and non-regulated activities.

Assurances given by Scottish Hydro-Electric plc to the Secretary of State for Trade and Industry prior to the Merger

Scottish Hydro-Electric plc assures the Secretary of State for Trade and Industry that if its proposed acquisition of Southern Electric plc is successful it will:

1. ensure that sufficient management and financial resources continue to be provided to ensure that the introduction of competition has been fully completed in the authorised area of Scottish Hydro-Electric plc by April 1999 and in the authorised area of Southern Electric plc by June 1999;
2. take no steps likely to restrict or prevent Southern Electric plc's compliance or ability to comply with the undertakings given to the Director General of Electricity and Gas Supply ("DGES") to address customer and competition concerns arising from the further delay in market opening;
3. ensure that sufficient financial and management resources and other facilities are available to enable Southern Electric plc to carry out its statutory and licence obligations;
4. ensure that the DGES is provided with such information from any company in the Scottish Hydro-Electric group as he requires in relation to the exercise of his regulatory functions;
5. co-operate with the DGES in ensuring appropriate financial separation and financial independence for Southern Electric plc;
6. use all reasonable endeavours to maintain the investment grade status of Southern Electric plc's rated debt;
7. co-operate in maintaining the timeliness and extent of published accounting information on Southern Electric plc.
8. ensure that published regulatory accounts are available to the public by 30 September of each year;
9. ensure that Southern Electric plc does not, except with the written consent of the DGES, agree to accept cross-default provisions that would be triggered by any breach of financing conditions elsewhere in the Scottish Hydro-Electric group;
10. place a financial ring-fence around Southern Electric plc's PES business; and place generation outside this ring-fence;
11. restructure its businesses within three years so as to place generation, and any non-electricity activities, in separate companies which would be affiliates but not subsidiaries or parent companies of the remaining electricity activities. In the meantime, it will ensure that any new generation investment or other significant

diversification by Scottish Hydro-Electric plc will be undertaken by a separate subsidiary company, and not by the company holding the PES licence; and dealings between the PES licensee and this subsidiary will be at arm's length and on normal commercial terms;

12. separate the operation and management of the distribution and supply businesses of both Scottish Hydro-Electric plc and Southern Electric plc and agree to modifications to their two PES licences to impose a duty on the PESs to facilitate competition in generation and supply;
13. place Scottish Hydro-Electric plc's second tier supply business in England and Wales in the same position as Southern Electric plc's second tier business as regards sales to under 100kW customers before Southern Electric plc's market is open to competition;
14. agree to modifications to Scottish Hydro-Electric plc's second tier supply licence in England and Wales to prohibit sales to designated customers in Southern Electric plc's area;
15. agree to modifications to Southern Electric plc's second tier supply licence in Scotland to prohibit sales to designated customers in Scottish Hydro-Electric plc's area;
16. not enter into any new electricity contracts between Scottish Hydro-Electric plc and Southern Electric plc's first tier supply business;
17. refrain from constructing or acquiring generation plant embedded in Southern Electric plc's system, without prior permission from the DGES;
18. ensure that Southern Electric plc agrees to appropriate licence modifications;
19. ensure that where the above matters relate to licence modifications, the parties will act as if they are already in place from the time of the merger.

Recent Developments

On 25 January 1999, Powergen UK plc invited tenders for the acquisition of generation plants known as Ferry Bridge C and Fiddler's Ferry. Along with certain other bidders, the Issuer has submitted a tender for those assets. As at the date of this Offering Circular, Powergen UK plc has not announced the outcome of the tender process.

Capitalisation

The following table sets out the Issuer's consolidated short term debt, long term debt and shareholders' equity and the Group's short term debt, long term debt and shareholders' equity prepared on the basis set out in footnote (1) below in each case as at 30 September 1998 and adjusted to reflect the issuance of the Bonds.

	At 30 September 1998 ⁽¹⁾			
	Actual		Adjusted ⁽⁴⁾	
	Issuer £m	Group £m	Issuer £m	Group £m
Debt:				
Short Term Debt	386.1	387.4	386.1	387.4
Cash Equivalent Investments ⁽²⁾	(19.4)	(123.6)	(19.4)	(123.6)
Net Short Term Debt⁽⁵⁾	366.7	263.8	366.7	263.8
7.875% Bonds Due 2007	150.0	150.0	150.0	150.0
10.25% Bonds Due 2002	0.0	150.0	0.0	150.0
7.375% U.S.\$100m Notes Due 2008 ⁽³⁾	0.0	61.6	0.0	61.6
European Investment Bank Facility ⁽⁵⁾	0.0	75.0	0.0	75.0
Bonds Offered Hereby ⁽⁴⁾	0.0	0.0	250.0	250.0
Total Long Term Debt	150.0	436.6	400.0	686.6
Shareholders' Equity⁽⁶⁾:				
Authorised Share Capital	275.0	275.0	275.0	275.0
Called up Share Capital	196.7	197.2	196.7	197.2
Preference Share Capital	0.0	0.0	0.0	0.0
Capital Redemption Reserve	0.0	146.8	0.0	146.8
Share Premium Account	24.9	48.3	24.9	48.3
Revaluation Reserve	1.9	1.9	1.9	1.9
Retained Earnings	732.7	1,341.7	732.7	1,341.7
Total Shareholders' Equity	956.2	1,735.9	956.2	1,735.9
Total Capitalisation	1,472.9	2,436.3	1,722.9	2,686.3

Notes:

- (1) The capitalisation table is prepared on the basis of the interim consolidated statements of the Scottish Hydro-Electric Group and the Southern Electric Group which were presented separately, and the directors of Scottish and Southern Energy plc have not attempted to harmonise the accounting policies of the Scottish Hydro-Electric Group and the Southern Electric Group. The figures included for the Group in the capitalisation table represent an aggregation of the interim consolidated statements of the Scottish Hydro-Electric Group and the Southern Electric Group.

Each group's interim results were reviewed by their respective auditors, and have been prepared on the basis of the accounting policies that would have been adopted by the Scottish Hydro-Electric Group and the Southern Electric Group for the year ending 31 March 1999 in the absence of the Merger. Harmonisation of the accounting policies of the Scottish Hydro-Electric Group and the Southern Electric Group is not expected to result in any material adjustment to the accounts.

An adjustment has been made to reflect short term deposits which are classified within current assets investments of the Issuer.

- (2) Cash equivalent investments include bank deposits, cheques deposited and awaiting clearance and cash and short term investments held by the Issuer and the Group's insurance subsidiaries.
- (3) The proceeds, and repayment, of the issue of U.S.\$100 million Notes by Southern Electric were fully swapped to sterling at a rate of U.S.\$1.624/£1.
- (4) The adjusted column of the table reflects the issue of the Bonds. Outstanding commercial paper, issued as short term debt, will be repaid with the proceeds of the issue of the Bonds.
- (5) During the period from 30 September 1998 to 25 February 1999, net short term debt had increased to £466.3 million for the Issuer and £548.9 million for the Group. In relation to long term debt, the European Investment Bank Facility had increased to £100m as at 25 February 1999.
- (6) The merger of Scottish Hydro and Southern Electric was declared wholly unconditional on 14 December 1998 and was effected by way of a share for share exchange whereby 483 million shares in the Issuer were issued to Southern Electric's shareholders and equivalent share capital and reserves of Southern Electric were cancelled. At the same time, the authorised share capital of the Issuer was increased to 600 million ordinary shares of £1 each.
- (7) Save as described above, there has been no material change in the Issuer's consolidated capitalisation or indebtedness since 30 September 1998.

Three Year Summary Financial Information

Part I: Financial Information on the Scottish Hydro-Electric Group

Nature of financial information

The financial information contained in Part 1 of this section of this document does not constitute Scottish Hydro's statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Act"). The information for the three years ended 31 March 1998 has been extracted without material adjustment from the published audited consolidated financial statements of Scottish Hydro for the three years ended 31 March 1998.

References in this Part I to the "Group" are to the Scottish Hydro-Electric Group and to a "share" or "ordinary share" are to a Scottish Hydro Share.

A. Consolidated Profit and Loss Accounts for the Years Ended 31 March

	1998 £m	1997 £m	1996 £m
Turnover.....	1,034.7	951.1	887.4
Cost of Sales	(574.1)	(522.1)	(502.4)
Gross Profit	460.6	429.0	385.0
Transmission and Distribution Costs	(140.7)	(130.8)	(127.2)
Administration Costs.....	(77.0)	(75.4)	(66.4)
Operating Profit.....	242.9	222.8	191.4
Share of Joint Ventures.....	3.8	2.5	10.6
	246.7	225.3	202.0
Profit on Part Disposal of Subsidiary	—	2.2	—
Profit on Ordinary Activities before Interest and Similar Charges.....	246.7	227.5	202.0
Net Interest Payable.....	(33.6)	(22.1)	(6.9)
Profit on Ordinary Activities before Taxation	213.1	205.4	195.1
Tax on Profit on Ordinary Activities	(37.9)	(41.2)	(46.8)
Windfall Tax.....	(44.3)	—	—
Profit on Ordinary Activities after Taxation	130.9	164.2	148.3
Minority Interest.....	—	—	0.2
Profit for the Financial Year	130.9	164.2	148.5
Dividends	(75.8)	(69.1)	(60.6)
Retained Profit	55.1	95.1	87.9
Earnings per Share (p) — basic.....	33.61p	42.35p	38.7p
— adjusted	44.98p	42.35p	38.7p
Dividends per Share (p)	19.41p	17.64p	15.76p

Group Statement of Total Recognised Gains and Losses for the Years Ended 31 March

	1998 £m	1997 £m	1996 £m
Profit for the Financial Year	130.9	164.2	148.5
Unrealised Deficit on Revaluation of Property	—	—	(0.4)
Total Recognised Gains and Losses for the Year	130.9	164.2	148.1

There is no material difference between the result as disclosed in the Profit and Loss Account and the result on an unmodified historic cost basis.

Three Year Summary Financial Information

B. Consolidated Balance Sheets as at 31 March

	1998 £m	1997 £m	1996 £m
Fixed Assets			
Tangible Fixed Assets	1,682.1	1,548.3	1,313.5
Investments in Associates	11.6	—	31.6
Investments in Joint Ventures			
Share of gross assets.....	96.0	82.4	—
Share of gross liabilities	(49.6)	(43.6)	—
	46.4	38.8	—
Trade Investments.....	3.5	4.9	—
	61.5	43.7	31.6
	1,743.6	1,592.0	1,345.1
Current Assets			
Stocks	31.5	33.7	19.9
Debtors	169.7	175.9	154.7
Investments	21.0	18.6	17.2
Cash at Bank and in Hand	8.8	2.0	10.3
	231.0	230.2	202.1
Creditors: amounts falling due within one year			
Borrowings	(349.9)	(312.8)	(93.6)
Other.....	(343.2)	(280.3)	(266.7)
	(693.1)	(593.1)	(360.3)
Net Current Liabilities	(462.1)	(362.9)	(158.2)
Total Assets Less Current Liabilities	1,281.5	1,229.1	1,186.9
Creditors: amounts falling due after more than one year			
Borrowings	(148.9)	(148.8)	(132.1)
Other.....	(112.4)	(109.1)	(107.4)
	(261.3)	(257.9)	(239.5)
Provisions for Liabilities and Charges			
Other Provisions	(38.1)	(48.8)	(59.4)
Deferred Taxation	(39.3)	(40.8)	(22.3)
Net Assets.....	942.8	881.6	865.7
Capital and Reserves — Including non-equity			
Called up Share Capital	196.5	194.5	192.2
Share Premium Account.....	23.0	7.6	1.4
Revaluation Reserve.....	1.9	0.6	0.4
Profit and Loss Account.....	721.4	678.9	671.7
	942.8	881.6	865.7

C. Consolidated Cash Flow Statements for the years ended 31 March

	1998 £m	1997 £m	1996 £m
Net Cash Inflow from Operating Activities	319.5	253.2	257.1
Dividends Received from Joint Ventures	1.2	0.9	—
Returns on Investments and Servicing of Finance			
Interest Received	1.8	1.0	0.7
Interest Paid	(33.9)	(17.8)	(7.5)
Cost of Issue of Debt	0.1	(1.2)	(3.2)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(32.0)	(18.0)	(10.0)
Taxation (including £22.1 million windfall tax)	(66.8)	(36.8)	(36.7)
Capital Expenditure and Financial Investment			
Purchase of Tangible Fixed Assets	(175.2)	(131.7)	(105.7)
Sale of Tangible Fixed Assets	2.3	2.6	3.4
Purchase of Short Term Investments	(2.4)	(1.4)	(2.4)
Capital Contributions from Customers	8.6	6.1	6.6
Net Cash Outflow from Capital Expenditure and Financial Investment	(166.7)	(124.4)	(98.1)
Acquisitions and Disposals			
Disposal of Shares in Trade Investments	0.2	2.1	—
Acquisition of Shares in Subsidiary Undertaking	—	(122.7)	—
Acquisition of Shares in Associates	(11.6)	—	—
Cash at Bank on Proportional Inclusion of Keadby Power Station	—	—	9.6
Acquisition of Shares in Joint Ventures	(7.6)	(8.3)	(11.5)
Net Cash Outflow from Acquisitions and Disposals	(19.0)	(128.9)	(1.9)
Equity Dividends Paid	(70.9)	(63.4)	(55.4)
Net Cash (Outflow)/Inflow before use of Liquid Resources and Financing	(34.7)	(117.4)	55.0
Financing			
New Secured Loan	—	150.0	3.0
New Short Term Loans	343.8	310.1	70.2
Repayment of Loans	(310.1)	(348.4)	(34.1)
Issue of Ordinary Share Capital	4.4	8.5	1.2
Net Cash Inflow from Financing	38.1	120.2	40.3
Increase in Cash	3.4	2.8	95.3

Part II : Financial Information on the Southern Electric Group

Nature of financial information

The financial information contained in Part II of this section of this document does not constitute Southern Electric's statutory accounts within the meaning of Section 240 of the Act. The information for the three years ended 31 March 1998 has been extracted without material adjustment from the published audited consolidated financial statements of Southern Electric for the three years ended 31 March 1998.

References in this Part II to the "Group" are to the Southern Electric Group and to "ordinary shares" are to Southern Electric Shares.

A. Consolidated Profit and Loss Accounts for the Years Ended 31 March

	1996				
	1998	1997	Excluding National Grid Group plc Demerger	National Grid Group plc Demerger	Total
	£m	£m	£m	£m	£m
Turnover	1,773.8	1,767.1	1,717.7	(120.1)	1,597.6
Cost of sales	(1,305.4)	(1,303.8)	(1,237.2)	10.9	(1,226.3)
Gross Profit	468.4	463.3	480.5	(109.2)	371.3
Distribution costs	(135.7)	(133.6)	(123.0)	—	(123.0)
Administrative expenses	(84.7)	(88.3)	(87.1)	—	(87.1)
Share of operating profit in associates	42.1	34.0	26.8	—	26.8
Operating Profit	290.1	275.4	297.2	(109.2)	188.0
Loss on disposal of discontinued activities	—	—	(10.9)	—	(10.9)
Gain on disposal of fixed asset investments	—	13.6	—	308.6	308.6
Income from fixed asset investments	—	0.9	9.6	142.7	152.3
Net interest (payable)/receivable:					
Group	(15.7)	(11.0)	2.8	—	2.8
Associates	(25.7)	(23.4)	(15.7)	—	(15.7)
Profit on Ordinary Activities before Taxation	248.7	255.5	283.0	342.1	625.1
Taxation	(59.7)	(54.6)	(51.1)	(43.2)	(94.3)
Profit on Ordinary Activities after Ordinary Taxation	189.0	200.9	231.9	298.9	530.8
Windfall tax	(164.0)	—	—	—	—
Equity – minority interest	—	—	(0.7)	—	(0.7)
Profit for the Financial Year	25.0	200.9	231.2	298.9	530.1
Dividends including non-equity	(114.2)	(104.9)	(235.8)	(348.2)	(584.0)
Retained (Loss)/Profit for the Financial Year	(89.2)	96.0	(4.6)	(49.3)	(53.9)
	Pence	Pence			Pence
Earnings per share before exceptional items	39.4	37.5			43.4
Exceptional items:					
— Windfall tax	(34.3)	—			—
— arising from demerger of NGG plc (after tax)	—	1.6			55.3
— loss on disposal of discontinued operations (after tax)	—	—			(0.6)
Earnings per Share	5.1	39.1			98.1
Dividends per Share	23.7	21.5			18.75

The above results are derived from continuing activities except for those items identified and there were no significant acquisitions during those years. The effects of the National Grid Group plc demerger were disclosed separately in the 1996 results in order to provide underlying comparative figures.

Three Year Summary Financial Information

Group Statement of Total Recognised Gains and Losses for the Years Ended 31 March

	1998	1997	1996
	£m	£m	£m
Profit for the Financial Year	25.0	200.9	530.1
Transfer of Investment Property to Operational Assets.....	—	(1.2)	—
Total gains	25.0	199.7	530.1

B. Consolidated Balance Sheets as at 31 March

	1998	1997	1996
	£m	£m	£m
Fixed Assets			
Tangible Assets	1,155.0	1,030.8	932.3
Investments	29.0	32.1	51.4
	1,184.0	1,062.9	983.7
Current Assets			
Stocks	9.6	10.5	11.7
Debtors	274.2	334.2	424.5
Investments	35.5	18.4	85.8
Cash at Bank and in Hand	16.9	17.2	16.7
	336.2	380.3	538.7
Creditors – Amounts Falling Due within one year	(513.7)	(451.8)	(487.3)
Net Current (Liabilities)/Assets	(177.5)	(71.5)	51.4
Total Assets Less Current Liabilities	1,006.5	991.4	1,035.1
Creditors – Amounts Falling Due after one year or more	(285.8)	(158.3)	(150.9)
Provisions for Liabilities and Charges	(24.2)	(42.9)	(44.9)
	696.5	790.2	839.3
Capital and Reserves			
Called up Share Capital	10.0	13.7	139.1
Share Premium Account	11.4	4.1	19.0
Capital Redemption Reserve	145.9	142.2	—
Revaluation Reserve	—	—	1.6
Profit and Loss Account	529.2	630.2	679.6
Equity Shareholders' Funds	696.5	790.2	839.3

C. Consolidated Cash Flow Statements for the Years Ended 31 March

	1998 £m	1997 £m	1996 £m
Operating Activities			
Net Cash Inflow from Operating Activities.....	354.1	274.6	200.2
Returns on Investments and Servicing of Finance			
Interest Received	7.5	12.1	18.5
Interest Paid	(20.3)	(21.0)	(14.6)
Dividends Paid on Non-Equity Shares	(0.6)	—	—
Dividends Received from Trade Investment	—	0.7	138.4
Net Cash (Outflow)/Inflow from Returns on Investments and Servicing of Finance	(13.4)	(8.2)	142.3
Taxation			
U.K. Corporation Tax Paid.....	(50.0)	(56.5)	(39.4)
Windfall Tax Paid	(82.0)	—	—
Tax Paid	(132.0)	(56.5)	(39.4)
Capital Expenditure and Financial Investment			
Purchase of Tangible Fixed Assets	(217.8)	(187.7)	(172.2)
Consumers' Contributions	20.5	13.7	11.3
Sale of Fixed Assets	10.2	15.1	6.0
Purchase of Own Shares	(0.2)	—	—
Purchase of Trade Investment.....	(0.3)	—	(21.1)
Sale of Trade Investments.....	—	19.7	62.9
Loans Repaid by or (to) Associated Undertakings.....	6.7	18.2	(24.1)
Net Cash Outflow from Capital Expenditure and Financial Investment	(180.9)	(121.0)	(137.2)
Acquisitions and Disposals			
Purchase of Interest in Associated Undertakings	—	—	(37.4)
Purchase of Interest in Subsidiary Undertakings.....	2.9	—	—
Purchase of Minority Interest	—	—	(22.9)
	2.9	—	(60.3)
Equity Dividends Paid	(105.9)	(103.3)	(221.5)
Cash Outflow before Management of Liquid Resources and Financing	(75.2)	(14.4)	(115.9)
Management of Liquid Resources			
(Increase)/Decrease in Short Term Deposits	(13.3)	63.4	96.0
Sale of Government Securities	—	—	0.5
	(13.3)	63.4	96.5
Financing			
Issue of Ordinary Share Capital	1.2	1.9	8.8
Share Issue Costs.....	—	(3.0)	—
Repayment of Preference Share Capital	(11.1)	(134.8)	—
Purchase of Fractional Shares.....	—	(0.6)	(0.6)
New Long Term Borrowings.....	132.3	—	—
(Repayment of)/New Short Term Borrowings.....	(32.4)	83.7	—
	90.0	(52.8)	8.2
Increase/(Decrease) in Cash in the Period	1.5	(3.8)	(11.2)

Interim Financial Information

Nature of financial information

The financial information contained in this section of this document does not constitute Scottish Hydro's or Southern Electric's statutory accounts within the meaning of Section 240 of the Act. The information for each of Scottish Hydro and Southern Electric for the six months ended 30 September 1998 has been extracted without material adjustment from the published unaudited consolidated restated interim financial statements of each of Scottish Hydro and Southern Electric for the six months ended 30 September 1998.

Profit and Loss Accounts

For the Period 1 April 1998 to 30 September 1998

Full Year to 31 March 1998 (as restated) Scottish Hydro £m	Half Year to 30 September 1997 (as restated) Scottish Hydro £m	Half Year to 30 September 1998 (unaudited) Scottish Hydro £m		Half Year to 30 September 1998 (unaudited) Southern Electric £m	Half Year to 30 September 1997 (as restated) Southern Electric £m	Full Year to 31 March 1998 (as restated) Southern Electric £m
1,034.7	462.5	486.6	Group Turnover	761.8	799.4	1,773.8
238.4	85.4	82.2	Group Operating Profit	109.5	105.0	248.0
3.8	0.5	2.0	Share of Operating Profit In:			
—	—	—	Joint Ventures	—	—	—
—	—	—	Associates	17.9	18.0	42.1
242.2	85.9	84.2	Income from Fixed Asset Investments	1.0	—	—
			Profit on Ordinary Activities Before Interest	128.4	123.0	290.1
(31.8)	(15.1)	(16.4)	Net Interest Payable:			
(1.8)	(0.9)	(0.9)	Group	(10.8)	(7.1)	(15.7)
—	—	—	Joint Ventures	—	—	—
208.6	69.9	66.9	Associates	(13.0)	(12.9)	(25.7)
			Profit on Ordinary Activities Before Taxation	104.6	103.0	248.7
(37.9)	(16.6)	(14.8)	Taxation	(25.1)	(24.7)	(59.7)
170.7	53.3	52.1	Profit on Ordinary Activities after Ordinary Taxation	79.5	78.3	189.0
(44.3)	(44.3)	—	Windfall Tax	—	(164.0)	(164.0)
126.4	9.0	52.1	Profit/(Loss)for the Financial Period	79.5	(85.7)	25.0
(75.8)	(22.7)	(30.2)	Dividends:			
—	—	(37.1)	Scottish Hydro Shareholders	—	—	—
50.6	(13.7)	(15.2)	Southern Electric Shareholders	(0.1)	(34.2)	(114.2)
			Retained Profit/(Loss)for the Financial Period	79.4	(119.9)	(89.2)
			Earnings per Share			
32.45p	2.31p	13.26p	Basic	16.5p	(17.9p)	5.1p
41.89p	11.75p	13.26p	Adjusted	16.5p	16.4p	39.4p
32.26p	2.30p	13.16p	Fully Diluted	16.5p	(17.9p)	5.1p
19.41p	5.81p	7.7p	Dividend per Ordinary Share	—	7.1p	23.7p

The above results derive from continuing activities and there were no acquisitions during the period.

Balance Sheets

At 30 September 1998

At 31 March 1998 (as restated) Scottish Hydro £m	At 30 September 1997 (as restated) Scottish Hydro £m	At 30 September 1998 (unaudited) Scottish Hydro £m		At 30 September 1998 (unaudited) Southern Electric £m	At 30 September 1997 (as restated) Southern Electric £m	At 31 March 1998 (as restated) Southern Electric £m
1,743.6	1,655.1	1,887.8	Fixed Assets	1,224.3	1,109.2	1,184.0
			Current Assets			
31.5	37.3	38.5	Stocks	18.2	13.1	9.6
169.7	142.1	178.6	Debtors	246.5	239.1	274.2
21.0	18.2	18.1	Investments	87.2	169.1	35.5
8.8	5.0	7.1	Cash at Bank and In Hand	17.0	19.8	16.9
(693.1)	(636.9)	(853.8)	Creditors: Amounts Falling due within One Year	(483.9)	(498.8)	(514.7)
(462.1)	(434.3)	(611.5)	Net Current Liabilities	(115.0)	(57.7)	(178.5)
1,281.5	1,220.8	1,276.3	Total Assets Less Current Liabilities	1,109.3	1,051.5	1,005.5
(261.3)	(260.2)	(269.1)	Creditors: Amounts Falling Due After One Year or More	(310.5)	(349.8)	(285.8)
(50.9)	(58.5)	(51.0)	Provisions for Liabilities and Charges	(19.1)	(33.4)	(21.7)
969.3	902.1	956.2		779.7	668.3	698.0
196.5	195.3	196.7	Called up Share Capital	0.5	12.0	10.0
772.8	706.8	759.5	Reserves	779.2	656.3	688.0
969.3	902.1	956.2	Equity Shareholders' Funds	779.7	668.3	698.0
50.6%	43.8%	55.2%	Gearing	23.5%	7.2%	41.3%

The results of Scottish and Southern Energy plc (formerly Scottish Hydro-Electric plc) were approved by the board of Scottish and Southern Energy plc on 16 December 1998.

The results of Southern Electric plc were approved by the board of Southern Electric plc on 16 December 1998.

Cash Flow Statements

For the period 1 April 1998 to 30 September 1998

Full Year to 1 March 1998 (as restated) Scottish Hydro £m	Half Year to 30 September 1997 (as restated) Scottish Hydro £m	Half Year to 30 September 1998 (unaudited) Scottish Hydro £m		Half Year to 30 September 1998 (unaudited) Southern Electric £m	Half Year to 30 September 1997 (as restated) Southern Electric £m	Full Year to 31 March 1998 (as restated) Southern Electric £m
319.5	160.6	123.6	Net Cash Inflow from Operating Activities	182.5	247.0	346.5
1.2	1.2	1.6	Dividends from Joint Ventures	—	—	—
—	—	—	Dividends from Associates	4.6	4.2	7.6
(32.0)	(9.3)	(10.7)	Returns on Investments and Servicing of Finance	(3.2)	(0.1)	(13.4)
(66.8)	(5.0)	(5.2)	Taxation	(10.0)	(9.3)	(132.0)
(166.7)	(75.9)	(126.1)	Capital Expenditure and Financial Investment	(71.0)	(81.9)	(180.9)
(19.0)	(10.7)	(23.3)	Acquisitions and Disposals	—	2.9	2.9
(70.9)	—	—	Equity Dividends Paid	—	—	(105.9)
(34.7)	60.9	(40.1)	Cash (Outflow)/Inflow Before Management of Liquid Resources and Financing	102.9	162.8	(75.2)
—	—	—	Management of Liquid Resources	(60.5)	(154.4)	(13.3)
38.1	(65.7)	13.2	Financing	(49.0)	(9.4)	90.0
3.4	(4.8)	(26.9)	(Decrease)/Increase in Cash in the Period	(6.6)	(1.0)	1.5

United Kingdom Taxation

The comments below are of a general nature based on current United Kingdom law and practice. They do not necessarily apply where the interest on the Bonds is deemed for tax purposes to be the income of any person other than the holder of the Bond or Coupon. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and Coupons and may not apply to certain classes of persons such as dealers. Prospective Bondholders should be aware that the particular terms of issue of any series of Bonds may affect the tax treatment of that and other series of Bonds. The following is a general guide and should be treated with appropriate caution. Any Bondholders who are in doubt as to their personal tax position should consult their professional advisers.

Interest

1. The Bonds which are in bearer form and which carry a right to interest will constitute “Quoted Eurobonds” provided they are and continue to be listed on a recognised stock exchange within the meaning of Section 841 of the Income and Corporation Taxes Act 1988. Accordingly, while the Bonds are and continue to be Quoted Eurobonds, payments of interest may be made without withholding or deduction for or on account of income tax where:

1.1 the Bonds are in global form and are held in a “recognised clearing system” (Cedelbank and Euroclear have each been designated as a “recognised clearing system”), provided that:

- (i) payment is made direct to the recognised clearing system; or
- (ii) payment is made to, or at the direction of, a depositary for the recognised clearing system; or
- (iii) the person by or through whom the interest is paid has obtained a notice from the Inland Revenue instructing that person to pay the interest with no tax deducted; or

1.2 the Bonds are issued in definitive form provided that:

- (a) the payment of interest is made by or through a person outside the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom but:
 - (i) the beneficial owner of the Bonds and the related Coupons is not resident in the United Kingdom; or
 - (ii) the Bonds are held in a “recognised clearing system” and 1.1(i) and 1.1(ii) above are satisfied,

and, in the case of 1.1 and 1.2(b), a declaration to that effect in the form required by law has been given to the person by or through whom the payment is made (or the Inland Revenue has issued a notice to that effect to the person by whom or through whom the payment is made) provided that the Inland Revenue has not issued a direction that it considers that none of the conditions in either 1.1 or 1.2(b)(i) and (ii), as the case may be, are satisfied and the person by or through whom the payment is made has not received notification from the declarant that the declaration does not apply to the payments in question and does not have reason to believe the declaration to be incorrect as respects all relevant payments.

In all other cases interest will be paid under deduction of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

2. Where a person in the United Kingdom in the course of a trade or profession either:

- (a) acts as custodian of Bonds which are Quoted Eurobonds and receives interest on such Bonds, or directs that interest on such Bonds be paid to another person, or consents to such payment; or
- (b) by means of coupons, warrants, or bills of exchange, collects or secures payment of, or receives interest on, such Bonds for a Bondholder or a Couponholder; or

(c) arranges to collect or secure payment of interest on Bonds which are Quoted Eurobonds,

(except by means of clearing a cheque or arranging for the clearing of a cheque) such person (the “collecting agent”) will be required to withhold on account of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to certain exceptions including where:

- (i) the relevant Bonds are held in a “recognised clearing system” for which the collecting agent is a depositary;
or
- (ii) the relevant Bonds are held in a “recognised clearing system” and the collecting agent pays or accounts for the interest directly or indirectly to the clearing system; or
- (iii) the person beneficially entitled to the interest and the related Bonds is not resident in the United Kingdom;
or
- (iv) the interest is payable to trustees not resident in the United Kingdom of certain discretionary or accumulation trusts (where, *inter alia*, neither the trustees nor the beneficiaries of the trust are resident in the United Kingdom); or
- (v) the person beneficially entitled to the interest is eligible under specified provisions for relief from United Kingdom tax in respect of the interest, for example a United Kingdom charity or approved United Kingdom pension fund; or
- (vi) the interest falls to be treated as the income of, or of the government of, a sovereign power or of an international organisation.

In the case of each of the exceptions (ii) to (vi) above, a declaration in the form required by law has to be provided to the collecting agent (or a notice issued by the Inland Revenue) for the relevant exception to be available. The collecting agent is required to withhold if the Inland Revenue issues a direction to that effect, having reason to believe that none of the above exceptions applies or that the depositary or collecting agent has failed to comply with certain requirements, or if the collecting agent receives notice from the declarant that the declaration provided does not apply to the receipts or payments in question or has reason to believe the declaration to be incorrect as respects the relevant receipts or payments.

In certain circumstances, a bank in the United Kingdom which sells coupons or deals in coupons in the United Kingdom may also be subject to the rules described above.

3. Bonds may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Bonds will not be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above.

4. Where Bonds are issued with a redemption premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.

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

6. The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the Bonds who are not resident for tax purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable, in which case (subject to exceptions for interest received by certain categories of agent) tax may be levied on the United Kingdom branch or agency.

Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

Bondholders should note that the provisions relating to additional amounts referred to in “Terms and Conditions of the Bonds – Taxation” above would not apply if the Inland Revenue sought to assess directly the person entitled to the relevant interest to United Kingdom tax. However, exemption from, or reduction of, such United Kingdom tax liability might be available under an applicable double taxation treaty.

Disposal (including redemption)

Corporate Bondholders

7. Bondholders which are companies and are either resident in the United Kingdom for tax purposes or hold the Bonds for the purpose of a trade carried on in the United Kingdom through a branch or agency in the United Kingdom will, subject to such relief as may be available under the terms of any applicable double tax treaty, be within the charge to United Kingdom corporation tax in respect of the Bonds. Such Bondholders will generally be subject to tax as income on profits and gains (including interest) arising from the Bonds, broadly in accordance with their statutory accounting treatment.

Other Bondholders

8. Taxation of Chargeable Gains

The Bonds are “qualifying corporate bonds” within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992 with the result that on a disposal of the Bonds neither chargeable gains nor allowable losses will normally arise for the purposes of taxation of capital gains.

9. Accrued Income Scheme

A transfer of a Bond by a holder who is not within the charge to United Kingdom corporation tax and is resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a charge to tax on income in respect of an amount representing interest on the Bond which has accrued since the preceding interest payment date.

United Kingdom Stamp Duty and Stamp Duty Reserve Tax

10. No United Kingdom Stamp Duty or Stamp Duty Reserve Tax is payable on the issue of a Bond or on its redemption.

Proposed European Directive on the Taxation of Savings

11. In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige Member States to adopt either a “withholding tax system” or an “information reporting system” in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it is adopted, whether it will be adopted in its current form. The “withholding tax system” would require a paying agent established in a Member State to withhold tax at a minimum rate of 20 per cent. from any interest, discount or premium paid to an individual resident in another Member State unless such an individual presents a certificate obtained from the tax authorities of the Member State in which the individual is resident confirming that those authorities are aware of the payment due to that individual. The “information reporting system” would require a Member State to supply, to other Member States, details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another Member State. For these purposes, the term “paying agent” is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto. If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before 1 January 2001.

Bondholders who are individuals should note that, if this proposal is adopted in its current form, the provisions relating to additional amounts referred to in Condition 8 of the Bonds under the heading “Taxation” would not apply in respect of withholding tax imposed as a result thereof.

Subscription and Sale

Merrill Lynch International, UBS AG, acting through its division Warburg Dillon Read, Barclays Bank plc, Credit Suisse First Boston (Europe) Limited, Dresdner Bank AG London Branch and Greenwich NatWest Limited (as agent for National Westminster Bank Plc) (together, the “Managers”) have, pursuant to a Subscription Agreement dated 19 March 1999 (the “Subscription Agreement”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 99.092 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a selling commission and a combined management and underwriting commission aggregating 0.625 per cent. of the principal amount of the Bonds. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Bonds.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (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 accordance with Regulation S under the Securities Act or 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 Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a 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 and regulations thereunder.

Each of the Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (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 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 Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Each Manager has represented and agreed that (1) it has not offered or sold and will not offer or sell any of the Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1988 (the “FSA”) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offer of Securities Regulations 1995 or the FSA, (2) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom and (3) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than this Offering Circular or any other document which consists of, or any part of, listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise be lawfully issued or passed on.

General Information

Listing

The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount, exclusive of accrued interest. Transactions will normally be effected for settlement in sterling and for delivery on the third business day in London after the date of the transaction. It is expected that listing of the Bonds will be granted on 22 March 1999, subject only to the issue of the Global Bond. Prior to official listing, however, dealings in the bonds will be permitted by the London Stock Exchange in accordance with its rules.

Legend

Bonds and Coupons 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".

Clearing systems

The Bonds have been accepted for clearance through Euroclear and Cedelbank with a Common Code number 9537163. The ISIN is XS0095371638.

Approvals and authorisations

The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 12 January 1999 and by resolutions of a duly authorised committee of the board of directors of the Issuer passed on 25 February 1999 and 18 March 1999, respectively.

Accounts

The financial information contained in this Offering Circular in relation to the Issuer does not constitute statutory accounts (within the meaning of Section 240 of the Companies Act 1985 (the "Act")) for any year or other period. Statutory accounts of the Issuer for the five years ended 31 March 1998 have been delivered to the Registrar of Companies in Scotland. KPMG Audit Plc, Chartered Accountants, the Auditors of the Group, and their predecessors, KPMG, Chartered Accountants, have made reports under Section 235 of the Act on the statutory accounts of the Issuer for the two years ended 31 March 1998 and the three years ended 31 March 1996, respectively. The reports of KPMG Audit Plc and of KPMG were not qualified (within the meaning of Section 262 of the Act) and did not contain a statement made under Section 237(2) or Section 237(3) of the Act.

The financial information contained in this Offering Circular in relation to Southern Electric plc does not constitute statutory accounts (within the meaning of Section 240 of the Companies Act 1985 (the "Act")) for any year or other period. Statutory accounts of Southern Electric plc for the three years ended 31 March 1998 have been delivered to the Registrar of Companies in England. Arthur Andersen, Chartered Accountants, have made reports under Section 235 of the Act on the statutory accounts of Southern Electric plc for the three years ended 31 March 1998. The reports of Arthur Andersen were not qualified (within the meaning of Section 262 of the Act) and did not contain a statement made under Section 237(2) or Section 237(3) of the Act.

No significant or material change

Save as disclosed herein, there has been no significant change in the financial or trading position of the Group since 31 March 1998 (being the date of its last published accounts) and, since such date there has been no material adverse change in the financial position or prospects of the Group.

Litigation

There are no and have been no legal or arbitration proceedings, including any which are pending or threatened, of which the Issuer is aware which may have, or have had during the 12 months prior to the date of this document, a significant effect on the financial position of the Group.

Pensions

In February 1997, a ruling was made against National Grid Group and its Group Trustees by the Pensions Ombudsman on a complaint by two pensioners in the National Grid Group's section of the Electricity Supply

General Information

Pension Scheme ("ESPS") relating to the use of the surplus arising under the actuarial valuation of the National Grid Group section as at 31 March 1992 to meet certain additional costs arising from the payment of pensions on early retirement resulting from reorganisation or redundancy. In June 1997 the High Court overturned this ruling and the case is currently under appeal to the Court of Appeal. In February 1999 the Court of Appeal issued its preliminary findings, however as these were unclear and did not cover all the issues, the court has been asked to amend or clarify them. If a similar complaint were to be made against Southern Electric in relation to its use of actuarial surplus in its section of the EPS, it would resist it, ultimately through the courts. However, if an equivalent court determination were finally made against it, Southern Electric could have a potential liability estimated by the directors to be up to £34.4 million (exclusive of any applicable interest charges).

Auditors

The Auditors of the Group are KPMG Audit Plc, Chartered Accountants, who were appointed on 25 July 1996. KPMG Audit Plc, Chartered Accountants, and their predecessors, KPMG, Chartered Accountants, have audited the Group's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended 31 March 1998 and the financial year ended 31 March 1996, respectively. The address of KPMG Audit Plc is Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EG.

Documents available for inspection

Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Clifford Chance, 200 Aldersgate Street, London EC1A 4JJ during the period of 14 days from the date of this Offering Circular:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the consolidated annual report and accounts of Scottish Hydro-Electric plc and Southern Electric plc, respectively, for the years ended 31 March 1997 and 1998 and the unaudited consolidated interim financial statements for the six months ended 30 September 1998;
- (iii) the Subscription Agreement; and
- (iv) drafts (subject to modification) of the Trust Deed, incorporating the forms of the Global Bond, the definitive Bonds and the Coupons, and the Paying Agency Agreement.

REGISTERED OFFICE OF THE ISSUER

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TRUSTEE

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Trinity Tower
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To the Issuer

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