

SP Transmission plc
(incorporated with limited liability in Scotland, registered number SC189126)

£350,000,000 2.000 per cent. Notes due 2031

Issue price: 99.469 per cent.

The £350,000,000 2.000 per cent. Notes due 2031 (the **Notes**) are issued by SP Transmission plc (the **Issuer**).

Payments of principal, premium and interest on the Notes will be made without deduction for United Kingdom withholding taxes to the extent set out herein. The Notes will bear interest at a rate of 2.000 per cent. per annum. The Issuer will pay interest on the Notes on 13 November of each year. The first such payment of interest will be made on 13 November 2020, in respect of the period from and including 13 November 2019 to but excluding 13 November 2020.

The Notes are subject to early redemption and the Issuer may, at its option, redeem all, but not some only, of the Notes (i) at any time on or prior to 13 August 2031 at par or, if higher, an amount calculated by reference to yields on UK Government Treasury Stock plus accrued interest, or (ii) at any time after 13 August 2031 at par plus accrued interest, in each case accordance with those provisions described under "*Terms and Conditions of the Notes – 5(d) Redemption at the option of the Issuer*". Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under "*Terms and Conditions of the Notes – 5(b) Redemption for taxation reasons*". In addition, upon the occurrence of certain events described under "*Terms and Conditions of the Notes – 5 (c) Redemption at the Option of the Noteholders*", holders of the Notes may require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) the Notes at par plus accrued interest. The Notes mature on 13 November 2031.

This Offering Circular has been approved by the Financial Conduct Authority (the **FCA**), as competent authority under Regulation (EU) 2017/1129 (the **Prospectus Regulation**). The FCA only approves this Offering Circular as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the FCA should not be considered as an endorsement of the Issuer or the quality of the Notes. Investors should make their own assessment as to the suitability of investing in the Notes.

Application has been made to the FCA for the Notes to be admitted to official list of the FCA (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the **Market**). The Market is a regulated market for the purposes of Directive 2014/65/EU (as amended, **MiFID II**). References in this Offering Circular to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act (**Regulation S**), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be rated Baa1 by Moody's France S.A.S. (**Moody's**) and BBB+ by S&P Global Ratings Europe Limited (**S&P**) as further described on page 17 of this Offering Circular. This Issuer is rated Baa1 by Moody's and BBB+ by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As at the date of this Offering Circular, each of Moody's and S&P is established in the European Union and registered under Regulation (EU) No. 1060/2009 (as amended) (the **CRA Regulation**).

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 13 November 2019 (the **Closing Date**) with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons not earlier than 40 days after the Closing Date (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances, in denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with interest coupons attached. See "*Summary of the Notes While in Global Form*".

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 7.

Managers

BARCLAYS

HSBC

NatWest Markets

Santander Corporate & Investment Banking

The date of this Offering Circular is 11 November 2019

This Offering Circular comprises a prospectus for the purposes of Article 6 of the Prospectus Regulation. When used in this Offering Circular, **Prospectus Regulation** means Regulation (EU) 2017/1129.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer the information contained in this Offering Circular is in accordance with the facts and the Offering Circular makes no omission of anything likely to affect the import of such information.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains the necessary information which is material to an investor for making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. The Issuer accepts responsibility accordingly.

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that those documents are incorporated and form part of this Offering Circular.

Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Offering Circular refers does not form part of this Offering Circular and has not been scrutinised or approved by the FCA.

The Managers (as defined in "*Subscription and Sale*", below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Managers.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Managers that any recipient of this Offering Circular or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the

Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons.

For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Managers which is intended to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the United Kingdom and to EEA Retail Investors; see "*Subscription and Sale*".

MIFID II product governance / Professional investors and eligible counterparties only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IN CONNECTION WITH THE ISSUE OF THE NOTES, BARCLAYS BANK PLC (THE STABILISATION MANAGER) (OR ANY PERSONS ACTING ON BEHALF OF THE

STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to *Sterling* and £ refer to the currency of the United Kingdom and references to **euro** are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

The Notes may not be a suitable investment for all investors

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

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

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments

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

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RISK FACTORS

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

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

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes at the date of this Offering Circular, but the inability of the Issuer to pay interest, premium, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which the Issuer may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

The Issuer considers the following risks to be the principal ones that might affect the Issuer's financial performance and financial results but cautions that the risks listed in this section do not address all the factors that could materially affect its financial results. There may be additional risks that the Issuer does not currently know of, or that are deemed immaterial based on information currently available or the Issuer's current assessment of the risk.

A. Operational Risks relating to the Issuer

The risks described under this heading A (Operational Risks relating to the Issuer) have been categorised as operational risks. Operational risks relate to losses resulting from inadequate or failed internal processes, people and systems, or due to external events. Should an operational risk materialise without effective prevention or mitigation controls it would have a high level of impact. Operational risks are managed through policy, standards, procedure-based controls, active prevention and monitoring. This introductory paragraph in italicised text forms part of the risk factors in this section but is not a risk factor itself.

- Catastrophic asset failure which results in a significant safety and/or environmental event. See "*Potentially harmful activities*" below.
- Failure of critical national infrastructure (CNI) Information Systems. See "*Infrastructure and IT systems*" below.
- Major cyber-security breach of business and CNI systems/data. See "*Infrastructure and IT systems*" below.
- Failure of a business critical enterprise (non-CNI) information system or systems. See "*Infrastructure and IT systems*" and "*Potentially harmful activities*" below.
- An asset or assets fail(s) on the electricity transmission system leading to a serious loss of supply or higher number of smaller losses of supply than currently experienced. See "*Potentially harmful activities*" below.
- The Issuer's workers, contractors or members of the public experience a safety incident that results in a fatal or life-changing injury. See "*Potentially harmful activities*" below.

- Failure to anticipate, respond or take advantage of disruptive forces such as technology and innovation in the Issuer's business. See "*Infrastructure and IT systems*" and "*Growth and business development activity*" below.
- Failure to identify, collect, utilise and keep private physical and information technology (IT) data. See "*Infrastructure and IT systems*" below.
- Failure to successfully deliver significant infrastructure projects. See "*Infrastructure and IT systems*" and "*Growth and business development activity*" below.
- Damage to the Issuer's business due to its focus on the transformation programme. See "*Infrastructure and IT systems*" and "*Growth and business development activity*" below.

Further context on the Issuer's operational risks is set out below.

Potentially harmful activities

Aspects of the Issuer's activities could potentially harm employees, contractors, members of the public or the environment and as a result the Issuer is subject to certain regulatory risks.

Potentially hazardous activities may arise in connection with the Issuer's business, which is the transmission of electricity. In addition, there may be other aspects of the Issuer's operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. A significant safety or environmental incident, a catastrophic failure of the Issuer's assets or a failure of its safety processes or of its occupational health plans, as well as a breach of the Issuer's regulatory or contractual obligations or its climate change targets, could materially adversely affect the Issuer's results of operations and its reputation. The Issuer is subject to laws and regulations governing health and safety matters to protect the public and its employees and contractors, who could potentially be harmed by these activities, as well as laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. This regulatory regime exposes the Issuer to costs and liabilities relating to its operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by the Issuer, and sites used for the disposal of its waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and the Issuer's share of the liability. The Issuer is increasingly subject to regulation in relation to climate change and is affected by requirements to reduce its own carbon emissions as well as to enable a reduction in energy use by its customers. If more onerous requirements are imposed or the Issuer's ability to recover these costs under regulatory frameworks changes, then this could have a material adverse impact on the Issuer's business, reputation, results of operations and financial position.

Infrastructure and IT systems

The Issuer may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by a failure to maintain the health of the Issuer's assets or networks, inadequate forecasting of demand, inadequate record keeping or control of physical or digital data or a failure of information systems (including critical national infrastructure and business critical enterprise systems) and supporting technology. This in turn could cause the Issuer to fail to meet agreed standards of service, incentive and reliability targets, or to be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming the Issuer's reputation.

Malicious attack, sabotage or other intentional acts, including breaches of the Issuer's cyber security, may also damage its assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on its reputation, business, results of operations and financial condition. Unauthorised access to, or deliberate breaches of, the Issuer's IT systems may also lead to manipulation of the Issuer's proprietary business data or customer information. Unauthorised access to private customer information may make the Issuer liable for a violation of data privacy regulations and such may have a material adverse impact on its reputation, business, results of operations and financial condition.

In addition to these risks, the Issuer may be affected by other potential events that are largely outside of its control, such as the impact of weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply or force majeure. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure, together with the Issuer's actual or perceived response, could materially adversely affect operational and potentially business performance and the Issuer's reputation.

Customer, counterparties and contractors

Customers, counterparties and contractors may not pay or perform their obligations.

The Issuer's operations are exposed to the risk that customers, suppliers, banks and other financial institutions and others with whom the Issuer does business will not satisfy their obligations, which could materially adversely affect its financial position. This risk is significant where the Issuer has concentrations of receivables from electricity utilities and their affiliates, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay the Issuer as a result of increasing commodity prices or adverse economic conditions.

To the extent that counterparties are contracted with for physical commodities and they experience events that impact their own ability to deliver, the Issuer may suffer supply interruption, which may have a material adverse effect on the Issuer's operational performance. There is also a risk to the Issuer where it invests excess cash or enters into derivatives and other financial contracts with banks or other financial institutions or through related companies. Banks who provide the Issuer with credit/bonding or banking facilities may also fail to perform their obligations under those contracts, which may have a material adverse impact on the Issuer's financial condition.

The Issuer also utilises and manages third party contractors for the delivery of projects involving transmission system enhancements or upgrades, taking a proactive oversight role during the construction phase. Whilst utilising contractors ensures that the most appropriate skills sets are leveraged on projects, the Issuer has experienced supplier failures in the past, most notably in terms of quality control. Whilst contractual warranties will cover the faulty components, there is often a significant unrecoverable cost associated with these events in addition to potential impacts to the service that the Issuer can provide to customers. In addition, any quality defects may not show up until sometime after the construction of an asset, resulting in an expensive and disruptive process of recovery. Any delay, unrecoverable costs and/or quality defects in relation to such projects could adversely affect the Issuer's financial position, market position or reputation.

Joint Ventures

The Issuer may enter into joint ventures and consortium transactions. The success of such arrangements can, in part, be dependent upon the maintenance of a good working relationship. Such arrangements are often governed by agreements containing detailed provisions regulating the relationship between the partners, including shareholder agreements, co-investment agreements and joint venture agreements. There are certain risks that, depending on the relevant provisions of the agreements, may restrict the Issuer's ability to take action that it considers to be advantageous.

Similarly, the Issuer will not necessarily control all decisions which are undertaken with and, as a result, decisions may be made that are not in the Issuer's best interests. Conflict between partners may lead to deadlock and result in the Issuer being unable to pursue its desired strategy or exit the development project other than on disadvantageous terms. Any of these factors may have a material adverse impact on the reputation, business, results of operations and financial condition of the Issuer.

B. Strategic and regulatory risks relating to the Issuer

The risks described under this heading B (Strategic and regulatory risks relating to the Issuer) have been categorised as strategic and regulatory risks. Strategic risk is the risk of failing to achieve the Issuer's overall strategic business plans and objectives, as well as failing to have the 'right' strategic plan. This introductory paragraph in italicised text forms part of the risk factors in this section but is not a risk factor itself.

The political climate and policy decisions of the Issuer's regulators in 2018/19 were key considerations in assessing strategic and regulatory risks.

- By the end of the first round of RIIO (Revenue = Incentives + Innovation + Outputs) (**RIIO**) price controls (**RIIO T1**), the Issuer has failed to defend existing allowances or failed to secure adequate new revenues. See "*Law and regulation*" below.
- The Issuer is unable to secure an acceptable outcome in the second round of RIIO price controls, which begins on 1 April 2021 and ends on 31 March 2026 (**RIIO-T2**). See "*Law and regulation*" below.
- Competition proxy or special purpose vehicle delivery models are introduced into the Issuer's license and applied to the Issuer projects. See "*Law and regulation*" below.
- The Issuer fails to manage the business according to the terms of the licenses and laws it operates under. See "*Law and regulation*" below.
- External and political pressures adversely impact achievement of business objectives. See "*Law and regulation*" below.
- The Issuer business operating model is preventing effective and efficient decision-making. See "*Growth and business development activity*" below.

Further context on the Issuer's strategic and regulatory risks is set out below.

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators and increased political could materially adversely affect the Issuer.

The Issuer's network is subject to regulation by the U.K. government, the U.K.'s Office of Gas and Electricity Markets (**Ofgem**) and other authorities. Changes in law or regulation or regulatory policy and precedent (including any changes arising as a result of the U.K.'s exit from the European Union) could materially adversely affect it. It may fail to deliver on any one of its customer, investor or wider stakeholder propositions due to increased political and economic uncertainty. If the Issuer fails to engage in the energy policy debate, it may not be able to influence future energy policy, secure satisfactory regulatory agreements and deliver its strategy. Decisions or rulings concerning, for example: (i) the RIIO T2 price controls and whether licences, approvals or agreements to operate or supply are granted, amended or are renewed, whether consents for construction projects are granted in a timely manner or whether there has been any breach of the terms of a licence, approval or regulatory

requirement; (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on the Issuer, its markets and customers, implications of climate change and of advancing energy technologies, whether aspects of its activities are contestable, the level of permitted revenues (including the application of restrictive finance models such as 'competition proxy' or special purpose vehicle delivery models to its projects) and dividend distributions for the Issuer and in relation to proposed business development activities; and (iii) the nationalisation of the Issuer's business or any of its assets, could have a material adverse impact on the Issuer's results of operations, cash flows, the financial condition of its businesses and/or the ability to develop those businesses in the future.

The Issuer is involved in ongoing regulatory consultation process for the next transmission price control period, which begins on 1 April 2021 and ends on 31 March 2026. In December 2018, Ofgem published its RII0-T2 sector specific consultation and a report by Cambridge Economic Policy Associates, a consulting firm setting out its initial cost of capital ranges. Ofgem published its RII0-T2 sector specific decision in May 2019 which includes further price control developments, such as the cost of capital and incentives. Companies are due to submit their business plans to Ofgem in late 2019. Ofgem's current proposals indicate a reduction in the cost of capital from current levels which will not be finalised until Ofgem's final transmission price determination in 2020. Any final determination reduction in allowable returns will reduce the Issuer's ability to service debt and other obligations.

The uncertainty in the current political climate in the United Kingdom poses several risks to the Issuer

The Issuer operates within markets that are subject to political and legislative intervention at both domestic and European Union (EU) level. This legal and compliance framework, which can change explicitly with the introduction of new or revised legislation or implicitly due to evolving interpretation and legal precedent, could adversely impact the Issuer's financial position or competitiveness.

In relation to the potential exit of the UK from the European Union, the UK Parliament has not yet approved the Withdrawal Agreement negotiated between the UK and the EU and, therefore, the legal default remains that the UK will leave without a deal on 31 January 2020 unless legislation is passed to prevent this. If the Withdrawal Agreement does receive approval from the UK Parliament before the negotiated deadline, there will be a transitional period in place until December 2020 which may also be extended. As a result, there is significant uncertainty about the future relationship between the UK, the EU and its other member states and the impact that any such future relationship may have on macroeconomic conditions in the UK and their potential impacts on the operation and financial position of the company.

The official opposition in the UK has made statements in respect of their intended actions in the UK energy market should they be in a position to form a government. For instance, the Labour party has stated its intention to take into state ownership regulated energy networks. Any changes to UK government policy or a change in government, as a result of the upcoming UK general election, may trigger new announcements, proposals or interventions in the UK energy market.

In addition, the Scottish National Party, who are currently the largest party in the Scottish Parliament, have indicated their preference to calling for a second referendum on Scotland's independence from the UK by the end of 2020. It is unclear whether any such referendum will occur, what the outcome might be should it occur, and if a referendum occurred and Scotland voted to leave the UK, what Scotland's future relationship with the rest of the UK and the EU would be. The consequences of a potential future referendum on the Issuer and the Scottish Power Limited's group's (**ScottishPower**) business are therefore uncertain.

Growth and business development activity

Failure by the Issuer to respond to external market developments and execute its growth strategy may negatively affect its performance. Conversely, new businesses or activities that the Issuer undertakes alone, or with partners, may not deliver target outcomes and may expose the Issuer to additional operational and financial risk.

Failure by the Issuer to grow its core business sufficiently and have viable options for new future business over the longer term or failure to respond to the threats and opportunities presented by emerging technology (including for the purposes of adapting its networks to meet the challenges of increasing distributed energy resources) could negatively affect its credibility and reputation and jeopardise the achievement of intended financial returns. The Issuer's business development activities and the delivery of its growth ambition involve acquisitions, disposals, joint ventures, partnering and organic investment opportunities, such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission) and internal uncertainties (including actual performance of ScottishPower and its business planning model assumptions, its ability to integrate acquired businesses effectively, as well as its decision making processes). As a result, the Issuer may suffer unanticipated costs and liabilities and other unanticipated effects. The Issuer may also be liable for the past acts, omissions or liabilities of companies or businesses it has acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, the Issuer may have limited control over operations and its joint venture partners may have interests that diverge from the Issuer's interests. The occurrence of any of these events could have a material adverse impact on the Issuer's results of operations or financial condition, and could also impact its ability to enter into other transactions.

Business performance

Current and future business performance may not meet the Issuer's expectations or those of its regulators and shareholders.

Earnings maintenance and growth from the Issuer will be affected by the Issuer's ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, its regulators. If the Issuer does not meet these targets and standards, it may not achieve its expected benefits, its business may be materially adversely affected and its performance, results of operations and reputation may be materially harmed and it may be in breach of regulatory or contractual obligations.

C. People risks

The risks described under this heading C (People risks) have been categorised as people risks. Building and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver the Issuer's strategic objectives is vital to its success. The Issuer is exposed to risk if it cannot attract, integrate and retain the talent it needs at all levels of the business. This introductory paragraph in italicised text forms part of the risk factor in this section but is not a risk factor itself.

- The Issuer cannot attract or recruit, develop or retain people with the right skills and capabilities to deliver its strategy and priorities.

Further context on the Issuer's people risks is set out in "*Employees and others*" below.

Employees and others

The Issuer may fail to attract, develop and retain employees with the competencies, including leadership and business capabilities, values and behaviours required to deliver its strategy and vision and ensure they are engaged to act in the Issuer's best interests.

The Issuer's ability to implement its strategy depends on the capabilities and performance of its employees and leadership at all levels of the business. Its ability to implement its strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel, this could prove to be especially challenging given the current age profile and experience of existing engineering staff, or if significant disputes arise with its employees. As a result, there may be a material adverse effect on the Issuer's business, financial condition, results of operations and prospects. There is a risk that an employee or someone acting on the Issuer's behalf may breach its internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on the Issuer's results of operations, its reputation and its relationship with its regulators and other stakeholders.

D. Financial risks

The risks described under this heading D (Financial risks) have been categorised as financial risks. While all risks have a financial liability, financial risks are those which relate to financial controls and performance. This introductory paragraph in italicised text forms part of the risk factors in this section but is not a risk factor itself.

Further context on the Issuer's financial risks is set out below.

Exchange rates, interest rates and commodity price indices

Changes in exchange rates, interest rates or commodity prices could materially impact earnings or the Issuer's financial condition.

A proportion of the Issuer's borrowings is affected by changes in interest rates and any adverse changes in such interest rates will have an adverse impact on the Issuer's financial results and net debt position. Furthermore, the Issuer's cash flow may also be materially affected as a result of settling any hedging arrangements entered into to manage its exchange rate, interest rate and commodity price exposure under large contracts for the supply of transmission infrastructure assets, transformers and/or cables. These exposures cover a range of currencies relative to sterling, but most predominantly euro and dollar.

Post retirement benefit contributions

The Issuer may be required to make significant contributions to its defined benefit scheme.

The Issuer participates in multi-company pension schemes that cover substantially all of its employees. Two of these schemes are defined benefit schemes where the scheme assets are held independently of the Issuer's own financial resources. Estimates of the amount and timing of future funding for the scheme are based on actuarial assumptions and other factors including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements. Actual performance of scheme assets may be affected by volatility in debt and equity markets. Changes in these assumptions or other factors may require the Issuer to make additional contributions to this pension scheme which, to the extent they are not recoverable under its price controls or state rate plans, could materially adversely affect the Issuer's results of operations and financial condition.

Financing and liquidity

An inability to access financing at commercially acceptable interest rates could affect how the Issuer maintains and grows its business.

The Issuer's business is financed through cash generated from its ongoing operations, banking facilities and by intra-group lending arrangements (these include both short term and long-term debt arrangements). The Issuer is rated by credit rating agencies and changes to these ratings may affect both the Issuer's borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how the Issuer services the financial requirements of its current businesses or the financing of newly acquired or developing businesses. Financial markets can be subject to periods of volatility and shortages of liquidity. If the Issuer were unable to access other internal group sources of finance or the capital markets at competitive rates for a prolonged period, the Issuer's cost of financing may increase, and as a consequence the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered and the manner in which the Issuer implements its strategy may need to be reassessed. Such events could have a material adverse impact on the Issuer's business, results of operations and prospects.

The Issuer's regulatory arrangements impose restrictions on the way it can operate. These include regulatory requirements for the Issuer to maintain adequate financial resources available to its operating business and may restrict the ability of the Issuer to engage in certain transactions, including paying dividends, lending cash and levying charges. The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on the Issuer's business and financial condition.

The Issuer's debt agreements and banking facilities contain covenants. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Issuer's debt and may restrict the Issuer's ability to draw upon its facilities or access the capital markets. A portion of the Issuer's intra-group debt arrangements are repayable upon demand at the option of the lender. The Issuer is financed via long term intra-group debt from Scottish Power UK plc and Iberdrola Financiación, S.A. and on-demand debt from Scottish Power UK plc. The amount of intra-group debt outstanding as at 30 September 2019 was £1,247.5 million, £1,334.1 million as at 31 December 2018 and £1,344.1 million as at 31 December 2017. The intra-group debt values quoted above include amounts of on-demand debt of £141.5 million, £83.1 million and £41.1 million, respectively. The on-demand debt could be called at any time which would lead to a liquidity issue for the Issuer if so demanded by the lender.

The Issuer, along with fellow subsidiary companies, SP Distribution plc and ScottishPower Renewables (WODS) Ltd provide a joint and several guarantee to the holders of debt securities of Scottish Power UK plc outstanding as at 1 October 2001, the time at which the business demerged for the purposes of the Utilities Act. The failure of Scottish Power UK plc to pay principal and interest when due on the guaranteed debt could result in the Issuer bearing the burden of financing and repaying the guaranteed debt.

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

The Notes contain an optional redemption feature, which is likely to limit their market value.

This Issuer may, subject as provided in Condition 5, redeem the Notes prior to their stated maturity date. During any period when the Issuer may elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed.

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

Risks related to the Notes

Set out below is a description of certain risks relating to the Notes.

Modification

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

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular and any such change could materially adversely impact the value of the Notes.

The denomination of the Notes involve integral multiples: definitive Notes

The Notes have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds a principal amount which is less than £100,000 in its account with the relevant clearing system, would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of £100,000, such that its holding amounts to £100,000 or a higher integral multiple of £1,000. Further, a holder who, as a result of trading such amounts, holds a principal amount which is less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

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

The Notes will be represented on issue by the Global Notes which will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Notes held through it. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligation under the Notes by making payments to the common safekeeper for distribution through Euroclear

and Clearstream, Luxembourg. A holder of a beneficial interest in the Global Notes must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market

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

Secondary market risks

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. In the event that no trading market develops, the Notes generally will have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes. Investors should be prepared to hold their Notes until their stated maturity date.

If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer.

Although application has been made for the Notes to be admitted to listing on the Official List and to trading on the Market, there is no assurance that such applications will be accepted or that an active trading market will develop.

Exchange rate risks and exchange controls

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

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

Interest rate risks

Fluctuations in interest rates can affect the market values of, and corresponding levels of capital gains or losses on, fixed income securities. During periods of rising interest rates, the prices of fixed income securities, such as the Notes, tend to fall and gains are reduced or losses are incurred upon

their sale. Accordingly, investment in the Notes involves the risk that changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The Notes, upon issue, will be rated Baa1 by Moody's and BBB+ by S&P. Any adverse change in an applicable credit rating could adversely affect the trading price of the Notes. Credit ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, withdrawal at any time by the assigning rating agency.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published, shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the audited annual report and accounts of the Issuer for the financial year ended 31 December 2017 (the **Issuer's 2017 Annual Report**) (which can be found at: https://www.scottishpower.com/userfiles/file/SP_Transmission_2017__Statutory_Accounts.pdf), including the information set out at the following pages in particular:

Independent Auditor's Report	Pages 15-16
Balance Sheet	Page 17
Income Statement	Page 18
Statement of Comprehensive Income	Page 19
Cash Flow Statement	Page 20
Notes to the Accounts	Pages 21 to 37

- (b) the audited annual report and accounts of the Issuer for the financial year ended 31 December 2018 (the **Issuer's 2018 Annual Report**) (which can be found at: https://www.scottishpower.com/userfiles/file/SP_Transmission_2018__Statutory_Accounts.pdf), including the information set out at the following pages in particular:

Independent Auditor's Report	Pages 16-17
Balance Sheet	Page 18
Income Statement	Page 19
Statement of Comprehensive Income	Page 20
Cash Flow Statement	Page 21
Notes to the Accounts	Pages 22 to 49

- (c) the audited annual corporate report and regulatory accounts of the Issuer for the year ended 31 March 2018 (the **Issuer's 2018 Regulatory Accounts**) (which can be found at: https://www.spenergynetworks.co.uk/userfiles/file/SP_Transmission_Regulatory_Accounts_2017-18.pdf), including the information set out at the following pages in particular:

Independent Auditor's Report	Pages 22-24
Balance Sheet	Page 25
Income Statement	Page 26
Statement of Comprehensive Income	Page 27
Statements of Changes in Equity	Page 27

Cash Flow Statement Page 28

Notes to the Accounts Pages 29 to 45

- (d) the audited annual corporate report and regulatory accounts of the Issuer for the year ended 31 March 2019 (the **Issuer's 2019 Regulatory Accounts**) (which can be found at: https://www.spenergynetworks.co.uk/userfiles/file/SPT_2018-19_Regulatory_Accounts.pdf), including the information set out at the following pages in particular:

Independent Auditor's Report Pages 24-26

Balance Sheet Page 27

Income Statement Page 28

Statement of Comprehensive Income Page 29

Statements of Changes in Equity Page 29

Cash Flow Statement Page 30

Notes to the Accounts Pages 31 to 58

- (e) the Issuer's annual performance report 2018/2019 (which can be found at https://www.spenergynetworks.co.uk/userfiles/file/Annual_Transmission_Report_2018_19.pdf); and

- (f) the executive commentary for the Issuer's regulatory financial performance report 2018/2019 (which can be found at: https://www.spenergynetworks.co.uk/userfiles/file/SPT_Executive_Summary_2018-19.pdf).

Any statement made in this Offering Circular or in a document incorporated by reference or deemed incorporated herein by reference is deemed to be modified or superseded for purposes of this Offering Circular if, and to the extent that, a statement contained in this Offering Circular or in any other document subsequently incorporated or deemed incorporated by reference herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any other information not listed above but contained in such document is either not relevant for investors or covered elsewhere in this Offering Circular.

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

TERMS AND CONDITIONS OF THE NOTES

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

The £350,000,000 2.000 per cent. Notes due 2031 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 12 and forming a single series with the Notes) of SP Transmission plc (the **Issuer**) are issued subject to and with the benefit of a fiscal agency agreement dated 13 November 2019 (such agreement as amended and/or supplemented and/or restated, the **Fiscal Agency Agreement**) made between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent and the paying agents named in it.

The fiscal agent and the paying agents for the time being are referred to below respectively as the **Fiscal Agent** and the **Paying Agents** (which expressions shall include any successor(s) appointed under the Fiscal Agency Agreement). The Fiscal Agency Agreement includes the form of the Notes and the coupons relating to them (the **Coupons**). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents and on the website of the Issuer at www.scottishpower.com. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of, and definitions in, the Fiscal Agency Agreement. The holders of the Notes (the **Noteholders**) and the holders of the Coupons (whether or not attached to the relevant Notes) (the **Couponholders**) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

- (a) **Form and denomination:** The Notes are serially numbered and issued in bearer form in the denominations of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, each with Coupons attached on issue. No definitive Notes will be issued with a denomination above £199,000. Notes of one denomination may not be exchanged for Notes of any other denomination.
- (b) **Title and Holder Absolute Owner:** Title to the Notes and the Coupons passes by delivery. The Issuer and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS

The Notes and Coupons constitute (subject to Condition 3) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its respective other present and future unsecured and unsubordinated obligations.

3. NEGATIVE PLEDGE

(a) So long as any of the Notes or Coupons remain outstanding (as set out in the Fiscal Agency Agreement):

- (i) the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a **Security Interest**) (other than a Permitted Security Interest) upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Relevant Indebtedness, or any guarantee of, or indemnity in respect of, any Relevant Indebtedness; and
- (ii) the Issuer will procure that no other person creates or permits to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the undertaking, assets or revenues, present or future, of that other person to secure (A) any of the Issuer's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Issuer, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Issuer or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Issuer (which is not a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect of, any such Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes and Coupons (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other Security Interest, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

Permitted Security Interest means any Security Interest created in respect of any Relevant Indebtedness of a company which has merged with the Issuer or one of its Subsidiaries or which has been acquired by the Issuer or one of its Subsidiaries, provided that such security was already in existence at the time of the merger or the acquisition, was not created for the purpose of financing the merger or the acquisition and has not increased in amount and not extended following the merger or the acquisition;

person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

Relevant Indebtedness means any present or future indebtedness for borrowed money of the Issuer or any other person or entity in the form of, or represented by, notes, debentures, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over the counter market or other securities market (for which purpose any such notes, debentures, loan stock or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide);

Relevant Subsidiary means a Subsidiary of the Issuer which holds a Relevant Licence (as defined in Condition 5(c)(v)); and

Subsidiary means, at any particular time, a subsidiary within the meaning of section 1159 of the Companies Act 2006.

4. INTEREST

(a) Interest Rate and Interest Payment Dates

The Notes bear interest from, and including, the Issue Date (as defined below) at the rate of 2.000 per cent. per annum (the **Rate of Interest**), payable annually in arrear on 13 November in each year (each an **Interest Payment Date**). The first payment (representing a full year's interest and amounting to £20.00 per Calculation Amount (as defined below)) will be made on 13 November 2020.

(b) Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event such Note shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the date on which all sums due in respect of such Note have been received by or on behalf of the relevant holder, and (b) seven days after the date on which the Fiscal Agent has notified Noteholders in accordance with Condition 13 of receipt of all sums due in respect of all the Notes (except to the extent that there is failure in the subsequent payment to the relevant holders under these terms and conditions (the **Conditions**)).

(c) Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated by applying the Rate of Interest to each £1,000 in principal amount of the Notes (the **Calculation Amount**) and on the basis of (a) the actual number of days in the period from and including the most recent Interest Payment Date or, as the case may be, the Issue Date (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days in the period from and including the Accrual Date to but excluding the next Interest Payment Date. The resultant figure shall be rounded to the nearest penny, with half a penny being rounded upwards. The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

(d) Interpretation

For the purposes of these Conditions, **Issue Date** means 13 November 2019.

5. REDEMPTION, PURCHASE AND OPTIONS

(a) Final Redemption

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 13 November 2031 (the **Maturity Date**).

(b) Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer has or will become obliged to pay additional amounts on the next Interest Payment Date as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or, any political

subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 11 November 2019, and (ii) such obligations cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

(c) **Redemption at the Option of the Noteholders**

- (i) If, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and within the Restructuring Period, either (subject as provided below including in the definition of Put Event):
- (A) if at the time such Restructuring Event occurs the Notes are rated by a Rating Agency, a Rating Downgrade in respect of such Restructuring Event also occurs; or
 - (B) if at the time such Restructuring Event occurs the Notes do not have a rating from a Rating Agency, a Negative Rating Event in respect of such Restructuring Event also occurs,

then, unless prior to the occurrence of such Restructuring Event the Issuer has previously given a notice under Condition 5(b) in respect of the Notes, the holder of each Note shall, 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 Note on the Put Date (as defined below), at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

- (ii) Promptly upon, and in any event within 14 days after, the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 13 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (iii) To exercise the Put Option, the holder of a Note must deliver such Note to the specified office of any Paying Agent, on a day which is a business day in the place of such specified office falling within the period (the **Put Period**) of 30 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 shall specify a bank account complying with the requirements of Condition 6 to which payment is to be made under this Condition 5. All unmatured Coupons shall be dealt with as per the provisions of Condition 6(c). The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a sterling 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 6. A Put Notice, once given, shall be irrevocable. For the purposes of these Conditions and the Fiscal Agency Agreement, receipts issued pursuant to this Condition 5 shall be treated as if they were Notes. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Note on the applicable Put Date unless previously redeemed or purchased.

If this Note is represented by a temporary global note (a **Temporary Global Note**) or a permanent global note (a **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes** and each a **Global Note**) or is in definitive form and held through Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**) to exercise the Put Option the Noteholder must, within the Put Period, give notice to any Paying Agent of such exercise in accordance with the standard procedures of Euroclear or Clearstream, Luxembourg, as applicable, (which may include notice being given on its instruction by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Fiscal Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg, as applicable, and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Paying Agent for notation accordingly.

- (iv) A Rating Downgrade or a Negative Rating Event 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 5 does not announce or publicly confirm or inform the Issuer or any Noteholder 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.
- (v) For the purposes of these Conditions:

Electricity Legislation means the Electricity Act 1989, as amended, modified, supplemented or substituted from time to time, including any regulations prescribed and promulgated pursuant thereto;

Group means the Issuer and its Subsidiaries and **member of the Group** shall be construed accordingly;

Investment Grade in relation to a rating means that the relevant Rating Agency has designated the rating as BBB-, Baa3 or their respective equivalents for the time being, or better;

a **Negative Rating Event** shall, subject to Condition 5(c)(iv) above, be deemed to have occurred if following a Restructuring Event (a) the Issuer does not, during the Restructuring Period, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes from a Rating Agency or (b) it does so seek and use such endeavours but it has not, as a result of such Restructuring Event, obtained in respect of the Notes a rating of at least Investment Grade from at least one Rating Agency by no later than the end of the Restructuring Period;

Put Date means the fifteenth day after the expiry of the Put Period;

a **Put Event** occurs in the case of the occurrence of a Restructuring Event, where there shall be in respect of such Restructuring Event a Rating Downgrade or a Negative Rating Event that, in either case, occurs during the Restructuring Period and continues to exist on the last day of the Restructuring Period;

Rating Agency means S&P Global Ratings Europe Limited or any of its subsidiaries or their successors or Moody's France S.A.S. or any of its subsidiaries or their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer from time to time;

a **Rating Downgrade** shall, subject to Condition 5(c)(iv) above, be deemed to have occurred in respect of a Restructuring Event if the rating assigned to the Notes by any Rating Agency which is current immediately prior to the occurrence of such Restructuring Event (whether such rating is 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 to a non-Investment Grade rating (BB+/BB+/Bal, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Notes below Investment Grade (as described above), the rating is lowered one full rating category (for illustration, Ba1 to Ba2 being one full rating category);

Relevant Licences means the Transmission Licence and in any such case, and from time to time any other licence(s), exemption(s), permission(s) or other authorisation(s) relating to the participation in the transmission of electricity granted under the Electricity Legislation to the Issuer or any of its wholly-owned Subsidiaries as contemplated in the exception to paragraph (A) of the definition of Restructuring Event, and **Relevant Licence** shall be construed accordingly;

Responsible Authority means the government of the United Kingdom or any subdivision thereof, the Gas and Electricity Markets Authority and the Office of Gas and Electricity Markets or other regulatory department, body, instrumentality, agency or authority of the United Kingdom or of any subdivision thereof having jurisdiction over the Issuer's electricity transmission operations or a material amount of the Issuer's assets or revenues, but excluding the Issuer acting in such capacity;

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

- (A) i the Responsible Authority gives the Issuer or any Subsidiary of the Issuer written notice of revocation, termination or withdrawal of any Relevant Licence; or
- ii. the Issuer or any Subsidiary of the Issuer agrees in writing with the Responsible Authority to any revocation, termination, withdrawal or surrender of any Relevant Licence; or
- iii. any original or delegated legislation is enacted revoking, terminating or withdrawing any Relevant Licence,

except in any such case in circumstances where licence(s), exemption(s), permission(s) or other authorisation(s) (as the case may be) is or are granted on terms not materially less favourable under the Electricity Legislation to the Issuer or one or more Subsidiaries of the Issuer; 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 11 November 2019 unless a certificate is issued signed by two directors of the Issuer in good faith to the effect 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;

Restructuring Period means, if at any time a Restructuring Event occurs, the period of 90 days starting from and including the day on which that Restructuring Event occurs; and

Transmission Licence means the electricity transmission licence held or deemed to be held by the Issuer under the Electricity Legislation, as amended or modified in accordance with the Electricity Legislation or the licence, including any such licence issued in substitution therefor.

(d) **Redemption at the option of the Issuer**

Unless a Put Event Notice has been given pursuant to Condition 5(c), the Issuer may, at any time, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable and shall specify the date fixed for redemption (the **Optional Redemption Date**)) redeem all, but not some only, of the Notes at the Relevant Early Redemption Price, together with accrued interest up to, but excluding, the Optional Redemption Date.

For the purposes of this Condition 5(d), **Relevant Early Redemption Price** means, in respect of each Note:

- (i) in relation to any Optional Redemption Date which falls in the period up to and including 13 August 2031, the greater of:
 - (A) 100 per cent. of the principal amount of such Note; and
 - (B) the principal amount of such Note multiplied by the price (as reported in writing to the Issuer and the Fiscal Agent by a financial adviser appointed by the Issuer) expressed as a percentage (rounded to four decimal places, with 0.00005 rounded upwards) at which the Gross Redemption Yield on the Notes (if the Notes were to remain outstanding until the Maturity Date) on the Calculation Date is equal to the Gross Redemption Yield at 11.00 a.m. (London time) on the Calculation Date of the 4.75 per cent. U.K. Government Treasury Stock due 2030 (ISIN: GB00B24FF097) (or, where such financial adviser notifies the Issuer and the Fiscal Agent that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend, the maturity of which most closely matches the maturity of the Note). For such purposes, **Calculation Date** means the date which is the third London Business Day prior to the Optional Redemption Date, **Gross Redemption Yield** means a

yield calculated in accordance with generally accepted market practice at such time, as notified to the Issuer and the Fiscal Agent by such financial adviser and **London Business Day** means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; or

- (ii) in relation to any Optional Redemption Date which falls in the period from but excluding 13 August 2031 to but excluding the Maturity Date, 100 per cent. of the principal amount of such Note.

Any reference in these Conditions and the Fiscal Agency Agreement to principal shall be deemed to include any sum payable as the Relevant Early Redemption Price.

(e) **Notice of redemption**

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

(f) **Purchases**

The Issuer and any Subsidiary of the Issuer may at any time purchase Notes (provided that all unmatured Coupons are attached or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, which held by or on behalf of the Issuer or any Subsidiary of the Issuer, shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 11(a).

(g) **Cancellation**

All Notes purchased by or on behalf of the Issuer or any of its Subsidiaries may be surrendered for cancellation by surrendering each such Note together with all unmatured Coupons to the Fiscal Agent and, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Coupons).

Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

6. PAYMENTS

- (a) **Method of Payment:** Payments of principal, premium and interest in respect of each Note will be made against presentation and surrender (or, in the case of a partial payment only, endorsement) of the relevant Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of partial payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any Paying Agent by credit or transfer to a sterling account maintained by the payee with a bank in London.

- (b) **Payments subject to fiscal laws:** All payments of principal, premium and interest on the Notes are subject in all cases to (i) any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7; and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7) any law implementing an

intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

- (c) **Surrender of unmatured Coupons:** Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of partial payment only, endorsement) of the relevant missing Coupon at any time not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.
- (d) **Payments on business days:** A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation and, in the case of payment by transfer to a sterling account, in London. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition **business day** means a day on which commercial banks and foreign exchange markets are open in the relevant city.
- (e) **Paying Agents:** The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Fiscal Agent; (ii) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority; and (iii) so long as Notes are in definitive form, there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer is incorporated.

7. TAXATION

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

- (a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom, other than the mere holding of the Note or Coupon; or
- (b) **Presentation in the United Kingdom:** presented for payment in the United Kingdom; or
- (c) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

Relevant Date means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal, premium and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

8. EVENTS OF DEFAULT

If any of the following events occurs and is continuing (each an **Event of Default**):

- (a) **Non-Payment:** default is made for more than 14 days (in the case of interest) or seven days (in the case of principal or premium) in the payment on the due date of interest, principal or premium in respect of any of the Notes; or
- (b) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations under or in respect of the Notes or the Fiscal Agency Agreement which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent at its specified office by any Noteholder; or
- (c) **Cross-Default:** (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or any Relevant Subsidiary becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, as the case may be, or, provided that no event of default on such Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 8(c) have occurred equals or exceeds £60,000,000 or its equivalent in other currencies.

Paragraph (i) above shall not apply to Relevant Indebtedness which is Relevant Indebtedness of a Relevant Subsidiary and becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default triggered by the acquisition of that Relevant Subsidiary by the Issuer (or any of its Subsidiaries), provided that this exception shall not apply if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

- (d) **Enforcement Proceedings:** any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 90 days; or
- (e) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

- (f) **Insolvency, etc:** (i) the Issuer or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or any Relevant Subsidiary is appointed (or application for any such appointment is made), or (iii) the Issuer or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it; or
- (g) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Relevant Subsidiary, or the Issuer or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or another Relevant Subsidiary; or
- (h) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its respective rights and perform and comply with its respective obligations under the Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes admissible in evidence in the courts of England is not taken, fulfilled or done; or
- (i) **Illegality:** it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under the Notes; or
- (j) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further formality unless such Event of Default shall have been remedied prior to the receipt of such notice by the Fiscal Agent.

In this Condition, **Relevant Indebtedness**, **Relevant Subsidiary** and **Subsidiary** shall have the respective meanings given to them in Condition 3.

9. PRESCRIPTION

Claims in respect of principal, premium and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of

principal and/or premium and five years in the case of interest from the appropriate Relevant Date.

10. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. MEETINGS OF NOTEHOLDERS AND MODIFICATION

- (a) **Meetings of Noteholders:** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10 per cent in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification of Fiscal Agency Agreement:** The Issuer shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Fiscal Agency Agreement, if to do so could not reasonably be expected to be prejudicial to the interests of the Noteholders.

12. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either (i) having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest thereon) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or (ii) upon such terms as the Issuer may

determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes.

13. NOTICES

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

14. CURRENCY INDEMNITY

Sterling is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes and the Coupons, including damages. Any amount received or recovered in a currency other than sterling (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the sterling amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that sterling amount is less than the sterling amount expressed to be due to the recipient under any Note or Coupon, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any other judgment or order.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

16. GOVERNING LAW

- (a) **Governing Law:** The Fiscal Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.
- (b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Fiscal Agency Agreement, the Notes or the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Fiscal Agency Agreement, the Notes, the Coupons (**Proceedings**) may be brought in such courts.

The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Noteholders and Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

SUMMARY OF THE NOTES WHILE IN GLOBAL FORM

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

1. EXCHANGE

The Temporary Global Note is exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 23 December 2019, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Global Note 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 or (ii) if principal in respect of any Notes is not paid when due and payable. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Permanent Global Note may, by notice to the Fiscal Agent (which may but need not be the default notice referred to in "– Default" below), require the exchange of a specified principal amount of the Permanent Global Note (which may be equal to or (provided that, if the Permanent Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date the holder of the Permanent Global Note may surrender the Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

Exchange Date means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

2. PAYMENTS

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, premium and interest in respect of Notes represented by the Permanent Global Note will, subject as set out below, be made to the bearer of such Global Note and, if no further payment falls to be made in respect of the Notes, against surrender of the Permanent Global Note to or

to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the principal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, Condition 6(d) (*Payments on business days*) shall not apply, and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

3. INTEREST CALCULATION

For so long as all of the Notes are represented by the Permanent Global Note, interest payable to the bearer of the Permanent Global Note will be calculated by applying the Rate of Interest to the outstanding principal amount of the Notes evidenced by such Global Note and on the basis of (a) the actual number of days in the period from and including the Accrual Date to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next Interest Payment Date. The resultant figure will be rounded to the nearest penny (with half a penny being rounded upwards).

4. NOTICES

For so long as the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg or an alternative clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication by it to relevant Accountholders (as defined below) rather than by publication as required by Condition 13 provided that, so long as the Notes are admitted to the Official List and to trading on the Market, all requirements of the FCA have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid. Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through the applicable clearing system's operational procedures approved for this purpose and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

5. ACCOUNTHOLDERS

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall, in the absence of manifest error, be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 5(c) or Condition 8) other than with respect to the payment of principal, premium and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer, solely in the

bearer of the Permanent Global Note. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the Permanent Global Note.

6. PRESCRIPTION

Claims against the Issuer in respect of principal, premium and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal and/or premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

7. MEETINGS

The holder of the Permanent Global Note shall (unless the Permanent Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Notes.

8. PURCHASE AND CANCELLATION

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by instruction by or on behalf of the Fiscal Agent to Euroclear and/or Clearstream, Luxembourg to make appropriate entries in their records in respect of all Notes which have been cancelled.

9. DEFAULT

The Permanent Global Note provides that the holder may cause the Permanent Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Permanent Global Note may elect that the Permanent Global Note becomes void as to a specified portion and that the persons entitled to such portion, as accountholders with a clearing system, acquire direct enforcement rights against the Issuer under further provisions of the Permanent Global Note executed by the Issuer as a deed poll.

10. PUT OPTION

For so long as all of the Notes are represented by the Permanent Global Note and such Permanent Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, the Noteholders' put option in Condition 5(c) may be exercised by the Accountholder, giving notice to the Fiscal Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on their instruction by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Fiscal Agent by electronic means), of the principal amount of Notes in respect of which the option is exercised and the Issuer shall procure that the portion of the principal amount of the relevant Global Note so redeemed shall be entered in the records of Euroclear and/or Clearstream, Luxembourg.

11. EUROCLEAR AND CLEARSTREAM, LUXEMBOURG

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate.

12. EUROSISTEM ELIGIBILITY

The Global Notes will be issued in New Global Note form. This means that the Notes are intended upon issue to be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg (each acting in its capacity as an International Central Securities Depository) and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to approximately £346,829,000, will be used for general corporate purposes, including the refinancing of debt (including intra-group debt) taken out for the purpose of financing the Issuer's electricity transmission business. The expenses in connection with the admission to trading are expected to amount to £5,515.

DESCRIPTION OF THE ISSUER

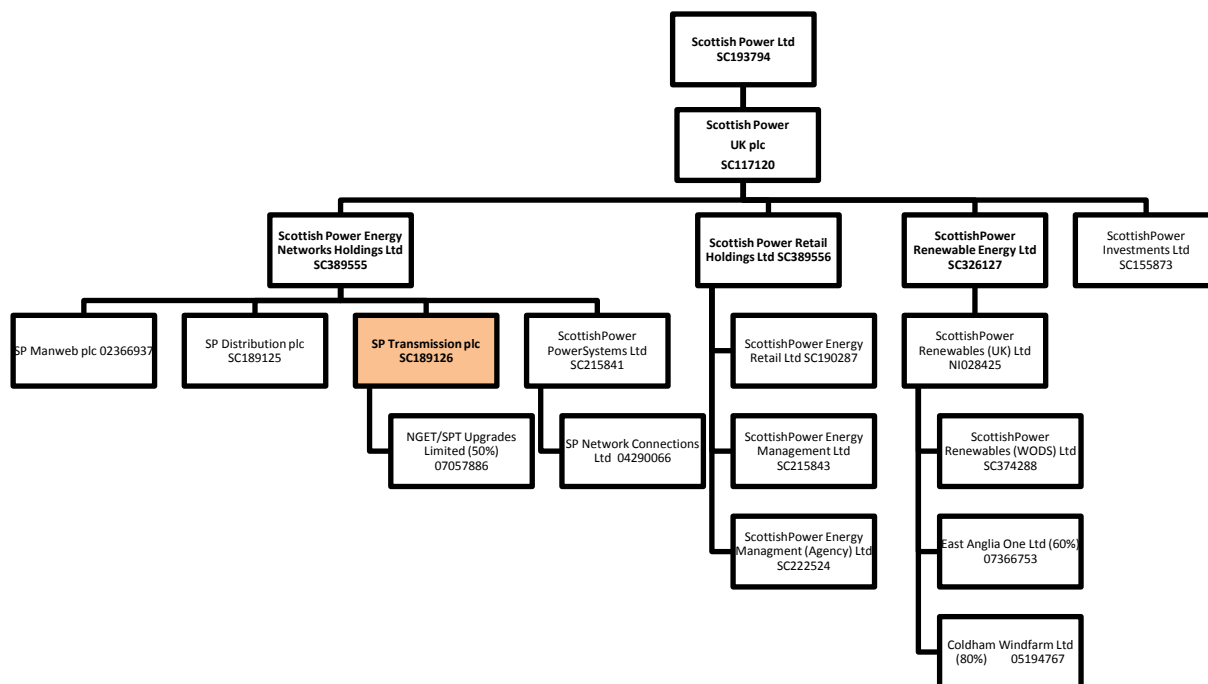
Overview

The principal activity of SP Transmission plc (the **Issuer**) is the ownership of the electricity transmission network within the Central and Southern Scotland area. The Issuer was incorporated under the Companies Act 1985 as a private limited company on 7 September 1988 and re-registered under the Companies Act 2006 as a public limited company limited by shares on 31 October 2013. The Issuer is registered with company number SC189126.

The registered office of the Issuer is Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT. The telephone number of the Issuer's registered office is 0141 614 0000.

The ultimate parent of the Issuer is Iberdrola, S.A. (**Iberdrola**), with shares listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. The Issuer is a 100 per cent. subsidiary of Scottish Power Energy Networks Holdings Limited (**SPENH**). Scottish Power Limited (**SPL**) is the United Kingdom (**UK**) holding company of the Scottish Power Limited group (**ScottishPower**), of which the Issuer is a member.

A simplified structure chart of ScottishPower is set out below:



Business Overview

In accordance with the British Electricity Trading and Transmission Arrangements (**BETTA**), National Grid plc (**National Grid**) operates the Great Britain transmission system, including balancing of generation and demand in Scotland. The Issuer retains network ownership and all associated responsibilities including development of the network within central and southern Scotland. The Issuer is part of ScottishPower's Energy Networks business (**Energy Networks**). Energy Networks owns three regulated electricity network businesses in the UK, which are the Issuer and fellow ScottishPower subsidiary companies, SP Manweb plc and SP Distribution plc. The three companies are 'asset-owner companies' holding the regulated assets and 'Electricity Distribution and Transmission' licences of ScottishPower, and are regulated monopolies. Energy Networks owns and operates the network of cables and power lines transporting electricity to around 3.5 million connected customers in Central and Southern Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

The Issuer is a transmission network owner. The electricity transmission network consists of the high-voltage electricity wires that convey electricity from power stations to distribution system entry points or, in certain cases, direct to end-users' premises via a national network of high-voltage assets.

The Issuer is a natural monopoly and is governed by The Office of Gas and Electricity Markets (**Ofgem**) via a regulatory price control. The primary objective of the regulation of the electricity networks is the protection of customers' interests while ensuring that demand can be met and companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover the Issuer's efficient costs and allow it to earn a reasonable return, provided the Issuer acts in an efficient manner, delivers value for customers and meets Ofgem's targets.

Up to 31 December 2017, SP Power Systems Limited (**Power Systems**), an unregulated business, provided asset management expertise to the asset-owner companies and conducted the day-to-day operation of the networks. Along with the asset-owner companies it acted as an integrated business unit to concentrate expertise on regulatory and investment strategy within Energy Networks, with Power Systems implementing programmes commissioned by and agreed with the asset-owner companies. Strict commercial disciplines were applied at the asset-owner service provider interface, with Power Systems operating as a contractor to the distribution and transmission businesses. From 1 January 2018, the role of Power Systems changed and it now provides a narrower range of asset management support services as opposed to being an internal contractor delivering work programmes. As part of this change, on 1 January 2018 the service contracts of 345 employees, inventories and certain liabilities were transferred from Power Systems to the Issuer. Power Systems transferred an amount of cash equivalent to the net liabilities acquired by the Issuer. A new 'Network Asset Management System' was introduced in 2018. This more fully utilises functionality within Energy Networks' existing 'Systems, Applications and Products' enterprise resource planning system. Key improvements targeted include standardised and streamlined business processes alongside automated work management and reporting.

RIIO-T2 will begin in 2021 for the Issuer's transmission business. In July 2018, Ofgem published its RIIO-T2 Framework decision which included high level decisions on particular elements of the price control framework (for further information, see "*Description of the Issuer – RIIO-T2*"). Alongside this document, Ofgem also published a report by Cambridge Economic Policy Associates, a consulting firm, setting out its initial cost of capital ranges, which will not be finalised until Ofgem's final transmission price determination in 2020. In December 2018, Ofgem published its RIIO-T2 sector specific consultation. Ofgem published its RIIO-T2 sector specific decision in May 2019 which includes further price control developments, such as the cost of capital and incentives. Transmission companies are due to submit their final business plans to Ofgem in late 2019.

The Issuer remains on track to complete an ambitious eight year programme of network renewal under the first round of RIIO price controls (**RIIO-T1**), which, as at the date of this Offering Circular, has under two years remaining. At 31 March 2019, the Issuer was almost 75 per cent. through its overhead line replacement programme of approximately 800 km, which is over 200 km ahead of plan. Other major deliverables include the connection of an additional 1,449 megawatts (**MW**) of directly connected generation, completion of two significant overhead line routes utilising innovative composite-core 'High Temperature Low Sag' technology and completion of a cumulative 66 per cent. of non-load outputs, ahead of the RIIO-T1 plan of 60 per cent. for the first six years.

The key strategies for the Issuer until the end of the current transmission price review period and beyond are to:

- ensure public safety and the safety of its employees;
- deliver improved customer service through more efficient processes, systems and higher first-time resolution;
- deliver value for money to customers through improved security of supply and network performance;
- maximise the financial benefit to be obtained from the available incentives to deliver returns at, or in excess of, allowed regulated returns;
- achieve investor objectives on sustainable returns on investment; and
- facilitate the UK's transition to a low carbon economy by connecting renewable generation and increasing transmission capacity.

In line with ScottishPower's strategic objectives and its regulatory obligations, Energy Networks is maintaining its significant investment in the UK energy network. Over the last ten years, it has invested around £5.6 billion in its transmission and distribution networks, and over the next ten years, Energy Networks currently plans to invest a further £5.4 billion to modernise and improve service to customers. Energy Networks' ten year investment plans are reviewed annually in detail to ensure plans are aligned with, and continue to support, UK government energy policy.

Energy Networks is mindful that some of its assets are critical national infrastructure (**CNI**). Energy Networks liaises with UK government agencies to ensure that any potential threats and risks are assessed and mitigated. Energy Networks takes steps to enhance both the physical security of its assets and the security of its associated IT and communications systems in circumstances where potential risks are identified.

Investments in electricity transmission assets which facilitate bulk energy transfer across the UK, for which the ability to export energy from Scotland was previously the main driver, have become important to ensure security of supply in Scotland through import capability, in light of existing and planned large generation plant closures on both sides of the Anglo-Scottish border. Energy Networks remains engaged with the UK government, Scottish government, National Grid and other industry stakeholders on issues related to ensuring resilience and security of supply in Great Britain.

The Electricity Network Association's (**ENA**) previously launched Open Networks project lays the foundations of a smart energy grid in the UK. The project brings together the UK energy industry as well as leading academics, trade associations and non-governmental organisations and aims to transform the way energy networks work. The project will enable the UK's energy networks companies to move from the traditional role of delivering electricity in one direction from centralised power plants to homes and communities, to one where the network acts as a smart platform that

enables a whole range of new energy technologies that generate, consume and manage electricity. The project is a key tool to support Energy Networks' vision of the decentralised energy system in which the transmission network plays a vital part in balancing the system and maintaining security of supply.

In 2017/18, both the Scottish and UK governments outlined plans to limit the purchase of new diesel or petrol vehicles after 2032 and 2040 respectively. To enable the wide scale roll out of electric vehicles (**EV**), it is key that the UK's electricity networks can facilitate suitable charging infrastructure for customers at a reasonable cost. Energy Networks will be engaging with a range of stakeholders to understand the capabilities of EV products and thereby understand the potential impact on customers' electrical needs.

Announcements in the past few years by the UK government on funding programmes have led to some renewables developers scaling back future activity. Some developers have requested acceleration in connection dates, while other projects have been deferred or cancelled. These developments have been analysed carefully, resulting in updated projections of volumes and expenditure for the Energy Networks business. The external environment will continue to be monitored and the impact of any changes in trends will be considered in future forecasts. Investments in interconnectors moving energy across the UK, for which Scottish export capability was previously the main driver, have become important to ensure security of supply in Scotland through import capability, in light of large thermal plant closures on both sides of the Anglo-Scottish border.

Energy Networks is continuing to develop and train staff for a 'smarter' future in line with the Issuer's 'grow our own' strategy and to replenish its ageing workforce from the communities served so that the investment made in recruitment and training continues to deliver in the long-term. The challenge of replacing an ageing workforce in Energy Networks and across the UK power sector in the coming years is significant. Energy Networks will continue to work closely with schools and Further and Higher Education institutions to ensure that it can attract high calibre individuals into exciting development and career opportunities. During the regulatory year¹ 2018/19 Energy Networks recruited 28 graduates, 9 power engineering apprentices, 28 apprentices, 23 adult craft trainees, 16 trainee operational engineers and in addition, internal recruits have been enrolled on the trainee engineer and technical craftsperson programmes to increase the engineering and technical capabilities of the frontline teams.

OPERATIONAL PERFORMANCE

The table below provides key financial information relating to the Issuer's performance during the year.

Financial key performance indicators	Notes	Year ended	Year ended 31
		31 December	December
		2018	2017*
		£m	£m
Revenue	(a)	371.5	340.2
Operating Profit	(a)	221.4	213.6
Profit before Tax	(a)	188.0	182.7
Net Assets	(b)	1,093.0	1,029.2
Capital Investment	(c)	197.5	298.8
Net Cash Flows from Operating Activities	(d)	234.7	296.8
Investment in Property, Plant and Equipment (cash flow)	(d)	191.9	357.2
Net Debt	(e)	(1,315.2)	(1,323.6)
FFO	(f)	247.0	227.8

¹ References to the regulatory year are to the reporting period to Ofgem for the annual twelve month period from 1 April to 31 March.

EBITDA	(g)	300.9	276.1
RAV	(h)	2,433.4	2,318.4
FFO/Net Debt		18.8%	17.2%
Net Debt/EBITDA		4.4x	4.8x
Net Debt/RAV	(i)	54.0%	57.1%

* Revenue restated (please refer to the Issuer's 2018 Annual Report).

- (a) Revenue, operating profit and profit before tax are presented in the income statement on page 19 of the Issuer's 2018 Annual Report.
- (b) Net assets are presented in the balance sheet on page 18 of the Issuer's 2018 Annual Report.
- (c) Capital Investments are presented under operational performance on page 3 of the Issuer's 2018 Annual Report.
- (d) Cash inflow from operating activities and Investment in Property, plant and equipment are presented in the cash flow statement on page 21 of the Issuer's 2018 Annual Report.
- (e) Net debt is presented on page 4 of the Issuer's 2018 Annual Report.
- (f) FFO is defined as Net profit for the year plus Depreciation and amortisation charge, allowances and provisions plus annual deferred tax movements.
- (g) EBITDA is defined as Earnings before interest and tax, depreciation and amortisation.
- (h) RAV (**Regulated Asset Value**) are the figures reported for the years ended 31 March 2019 and 31 March 2018, respectively.

Closing Regulated Asset Values (RAV)
£m y/e 31 March

2014	2015	2016	2017	2018	2019
1,439.6	1,684.3	1,911.7	2,164.2	2,318.4	2,433.4

- (i) December 2018 percentage calculated using the Net debt value as at 31 December 2018 and the Regulated Asset Value as at 31 March 2019, December 2017 percentage calculated using Net debt value as at 31 December 2017 and the Regulated Asset Value as at the 31 March 2018. The Issuer aims to maintain its Net debt/RAV percentage at or around the regulatory gearing percentage assumed in the respective regulatory price controls set by Ofgem.

The majority of revenue generated by the Issuer is subject to regulation by the Gas and Electricity Markets Authority (**GEMA**).

The Issuer continued to focus on cost control with efficiency improvements allowing increased operating activity to be managed within the existing cost base.

The Issuer's operating profit for the financial year ended 31 December 2018 was £221.4 million, an increase of £7.8 million compared to the prior year, and profit before tax for the financial year ended 31 December 2018 was £188.0 million, an increase of £5.3 million compared to the prior year.

Revenue increased by £31.3 million for the financial year ended 31 December 2018 primarily as a result of higher income earned under the RIIO-T1 price control.

Net personnel expenses increased by £2.7 million for the financial year ended 31 December 2018 compared to the prior year. This increase is mainly the result of the transfer of 345 employees to the Issuer from Power Systems on 1 January 2018. With effect from that date a proportion of the costs of both direct and indirect staff were capitalised within property, plant and equipment in the course of construction.

Other operating income decreased £1.7 million for the financial year ended 31 December 2018 primarily as a result of lower activity rechargeable to customers.

Taxes other than income tax have increased by £2.8 million for the financial year ended 31 December 2018 primarily as a result of higher property related taxes.

Depreciation and amortisation charge, allowances and provisions has increased by £17.0 million for the financial year ended 31 December 2018 mainly as a result of the increased cost base for depreciation.

Net finance costs increased by £2.5 million for the financial year ended 31 December 2018 primarily as a result of lower capitalised interest charge following completion of major projects.

The income tax expense increased for the financial year ended 31 December 2018 primarily as a result of increased taxable profits.

Cash and Net Debt

In 2018, the Issuer generated £234.7 million of cash from operating activities (compared to £296.8 million in 2017). This was used to fund net investing activities of £98.3 million (compared to £357.2 million in 2017) and settle net interest charges amounting to £36.5 million (compared to £36.4 million in 2017). A dividend of £91.5 million was paid in 2018 to SPENH as sole shareholder (compared to £75.8 million paid in 2017). The amount owed to Scottish Power UK plc (**SPUK**) through the on-demand working capital facility increased by £42.0 million to £83.1 million (compared to a decrease of £149.8 million in 2017).

Funding

On 31 December 2018, the Issuer had net debt of £1,315.2 million (compared to £1,323.6 million in 2017).

The Issuer is funded by a combination of debt and equity in accordance with the directors' objectives of establishing an appropriately funded business consistent with the requirements of the Utilities Act 2000 and the objectives of the Iberdrola group.

The overall movement in net debt in 2018 was a decrease of £8.4 million to £1,315.2 million. The movement in net debt comprised a decrease in cash of £1.6 million and a decrease in debt of £10.0 million representing an increase in the working capital facility of £42.0 million and the contractual bi-annual partial repayment of £52.0 million due under the loan agreement with SPUK that matures in 2022.

The Issuer had current assets of £35.0 million on 31 December 2018 (compared to £33.6 million in 2017) and current liabilities of £616.1 million on 31 December 2018 (compared to £317.7 million in 2017). The change in current liabilities in 2018 represents the amortising profile of the long term debt agreements between the Issuer and SPUK. Please see pages 42 to 43 of the Issuer's 2018 Annual Report for further information.

KEY NON-FINANCIAL PERFORMANCE INDICATORS

The tables below provide key non-financial performance indicators relating to the Issuer's operational assets and operational performance.

	Regulatory year ended 31 March 2019	Regulatory year ended 31 March 2018
Operational assets		
Franchise area (km ²)	22,950	22,950
System maximum demand (MW)	3,318	3,337
Length of overhead lines (circuit km)	3,740	3,734
Length of underground cables (circuit km)	603	573

	Notes	Regulatory year ended 31 March 2019	Regulatory year ended 31 March 2018
Operational performance			
Annual system availability	(a)	95.31%	96.29%
Winter peak system availability	(b)	97.55%	97.88%
Annual reliability of supply	(c)	99.99%	99.99%
Annual number of loss of supply incidents	(d)	17	14
1. Incentivised incidents		9	2
2. Non incentivised incidents		8	12

- (a) Annual system availability details the overall availability of the licensee's transmission circuits, with any reduction below 100 per cent. being due to planned outages and faults. Annual system availability decreased this year due to an increase in planned (construction) and unplanned (faults) outages.
- (b) Winter peak system availability is the average system availability over the three months of December, January and February. Winter peak system availability decreased this year due to an increase in planned (construction) outages.
- (c) Annual reliability of supply is provided by the system operator, National Grid Electricity System Operator Limited (**National Grid ESO**).
- (d) Any event on the licensee's transmission system that causes electricity not to be supplied. Incentivised incidents are incidents where the loss of supply is longer than three minutes and non-incentivised incidents are those which do not cause a loss of supply to customers and those that cause a loss of supply to customers that last less than three minutes.

Although these metrics give a view on asset network performance, it must be pointed out that performance can be impacted by factors that are outside the control of the transmission licensee, for example faults due to bad weather.

RETURN ON REGULATORY EQUITY (RoRE)

The table below sets out the Issuer's Return on Regulatory Equity:

Regulatory Year ending 31 March	Actuals 2014	Actuals 2015	Actuals 2016	Actuals 2017	Actuals 2018	Actuals 2019	Cumulative to 2019
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RoRE based on Notional Gearing

Allowed Equity Return	%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Totex outperformance	%	2.3%	2.7%	0.5%	0.1%	0.0%	0.8%
IQI Reward	%	1.7%	0.2%	2.9%	0.8%	0.7%	1.1%
Network Reliability Incentive	%	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%

Stakeholder Satisfaction Output	%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.1%
SF6 Emissions Environmental	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Discretionary Reward Performance re offers of timely connection	%	0.0%	0.0%	0.4%	0.4%	0.0%	0.0%	0.1%
Network Innovation	%	0.0%	-0.1%	-0.1%	-0.2%	0.0%	0.1%	-0.1%
Penalties and fines	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
RoRE - Operational performance	%	11.3%	10.2%	11.1%	8.5%	8.2%	8.1%	9.4%
Debt performance - at notional gearing	%	2.7%	1.6%	0.3%	1.7%	3.8%	2.8%	2.2%
Tax performance - at notional gearing	%	-0.3%	0.4%	0.0%	-0.3%	-0.1%	-0.1%	-0.1%
RoRE - including financing and tax	%	13.7%	12.1%	11.5%	9.9%	11.9%	10.8%	11.5%

TOTAL TOTEX

On 1 October 2019 the Issuer submitted its draft business plan proposals covering the RIIO-T2 price control period. The information below details the expected expenditure profile for each of the relevant regulatory years within the RIIO-T2 period.

RIIO-T2 Expenditure Profile		£m (2018/19 Prices) y/e 31 March						Annual Average	
		2022	2023	2024	2025	2026	Total	RIIO-T2	RIIO-T1
Load Related	Generation Connections	40.2	48.4	22.8	3.1	0.0	114.5	22.9	69.6
	Demand Connections	28.3	32.9	30.6	20.4	9.4	121.6	24.3	10.2
	Wider Works	42.4	99.8	106.7	65.7	56.2	370.7	74.1	72.8
Non-load Related	Lead - Circuit-breakers	12.2	31.6	31.2	38.9	18.3	132.3	26.5	20.2
	Lead - Overhead Lines & Cables	73.4	67.9	40.7	49.3	34.0	265.2	53.0	33.5
	Lead - Transformers & Reactors	6.7	6.0	6.8	8.6	9.1	37.4	7.5	11.1
	Non-Lead	31.2	26.3	33.8	25.2	24.9	141.4	28.3	25.3
Other	Resilience Non Operational Capex	3.5	5.1	5.0	2.3	0.8	16.8	3.4	5.7
	Operating Costs Engineering and Corporate Support	3.5	2.5	2.3	2.1	2.3	12.7	2.5	2.3
		16.2	16.5	15.7	15.9	17.5	81.6	16.3	11.5
		26.7	26.5	26.2	25.9	25.5	130.8	26.2	23.5
Total Totex		284.3	363.6	321.8	257.3	198.1	1,425.0	285.0	285.8

* figures may not add across due to rounding

PROJECTS

The Issuer, in accordance with its long-term plan agreed with stakeholders, continues to undertake a number of major projects that will enhance the capability and capacity of the transmission network. This includes key projects to facilitate the delivery of the Scottish Government's target for renewable generation in Scotland.

Strategic Reinforcement and Generation Connections

The engineering and construction works undertaken on strategic reinforcement projects during 2018/19 continue to deliver an ambitious investment plan which will increase transmission capacity from Scotland to England from 3.3 Gigawatts (**GW**) to close to 7.0 GW before 2021. There are a number of key projects in this area and their progress is described below.

In February 2012, National Grid and the Issuer announced the award of a £1 billion contract to build the first ever sub-sea electricity link between Scotland and England/Wales. The link is the longest high capacity High Voltage Direct Current (**HVDC**) cable in the world and will increase the capacity of electricity flowing between Scotland and England/Wales by more than 2 GW per year. During 2019, the Hunterston HVDC convertor station was fully commissioned and the link entered full operational service. The project is expected to be fully taken over by the Issuer by the end of 2019.

In December 2009, the Scottish government granted Section 37 (**S37**) consent for the Beaully-Denny 400 Kilovolt (**kV**) overhead line (**OHL**), subject to appropriate visual mitigation measures. Following extensive liaison with Stirling Council and the local community in relation to the visual mitigation measures, the Issuer was finally provided with a formal notice of consent for the Beaully-Denny project in December 2011. Since then a major construction programme was undertaken with a new 400kV OHL from Beaully to Denny being completed. The dismantling of redundant 132kV OHLs along with all remaining works, including the Stirling 'Visual Impact Mitigation' scheme, remain on course for completion in 2019.

During 2018/19 the Issuer completed the final elements of the 'Series Compensation and East-West Upgrade' projects. A series compensation solution was used to increase the capacity of the eastern and western power corridors to England and the existing interconnection between them was strengthened. These complementary projects were essential to permit the connection of large volumes of renewable generation in Scotland and the capacity of the links between Scotland and England was increased by one third to 4.4 GW. Both projects will further strengthen the power links between the West and East of Scotland and significantly increase the transport of electricity from Scotland to England with an increase in capacity of 1.1 GW per year.

The closure of Longannet power station in March 2016, along with wider changes to the electricity generation background in the UK, has necessitated the development of further voltage control schemes. A further two shunt reactors entered service during 2018/19 bringing the total number to five. Two further shunt reactors are expected to come into service during 2019.

The Issuer also continues to work closely with stakeholders to connect wind farms in accordance with proposals set out in its business plan for RIIO-T1. The current projection for renewable generation, based on the Issuer's best view of contracted generation schemes, has been reduced as a result of market uncertainty around government subsidy changes and delays to consents for onshore and offshore development projects. It is currently anticipated that the Issuer could connect between 1.6 GW and 2.0 GW by 2020/21 which is expected to fall below the original RIIO-T1 plan.

Against this backdrop, however, the Issuer has worked closely with its customers to develop and deliver a significant number of connections in the regulatory year:

- In 2018/19 two new wind farms – Kype Muir and Middlemuir were connected to the transmission network, near Coalburn, delivering 139 Megawatts (**MW**) of new generation capacity. This, along with capacity already delivered since the start of RIIO-T1, brings the total to 1,500 MW or 60 per cent. of the target for the price control period.
- Across the Issuer's geographical area development continues for more than 50 future schemes with a potential capacity exceeding 5 GW. This is against a backdrop of the highest number of connection applications (circa 150) since the start of RIIO-T1.
- The new connections have been accompanied by a range of reinforcement projects to strengthen the network and facilitate future connections. The reinforcements have added nearly 300 Mega Volt Amperes (**MVA**) of additional capacity in the regulatory year. The RIIO-T1 target was exceeded in 2017/18 and the Issuer remains on course to deliver circa 3.5 Giga Volt Amperes (**GVA**) by the end of the price control period. A significant contribution to this forecast will be made through the reinforcement of the Kilmarnock South 400/275kV substation (circa 1,000MVA). Site works are progressing well with the installation of both 400kV and 275kV Gas Insulated Switchgear (**GIS**) – including the energisation of the 400kV substation.
- Activity continues to focus on development and construction works on new wind farm capacity, in South-West Scotland. After another successful year, further phases of the work are scheduled for completion over a coordinated timeframe which currently reaches to 2022.

The Issuer's work with customers has been recognised in the latest stakeholder satisfaction survey². There has been regular improvement since the start of RIIO-T1 culminating in the Issuer's best result in 2018/19 with a mean score of 8.5, as determined by an external research company³.

Demand Connections

Whilst the vast majority of current customer-driven investment on the Issuer's network relates to generation connections, there are a small number of schemes associated with new demand connections. To this end, development work continues to support Network Rail's future electrification proposals.

Network reinforcement and modernisation

During the regulatory year a substantial amount of reinforcement work and modernisation has been undertaken to improve the security and quality of supply to existing customers, whilst also enhancing the security of supply and providing new capacity for the distribution network to support economic development. Projects completed and progressed during the year include:

- A number of schemes to increase capacity at Grid Supply Points (**GSPs**) (the main supply to the distribution network) are in advanced development stages or construction.
- The reinforcement of Galashiels and Kaimes GSPs were substantively completed in 2018/19.
- A number of modernisation projects were undertaken to address substation assets that were at, or approaching, the end of their life. These include:

² The Issuer surveys its supply chain, developers connecting to the Issuer's network, connected customers, the communities in which it works in and stakeholders with a broad interest in what the Issuer does. All respondents are asked to rate their overall satisfaction out of 10.

³ The 2018/19 score of 8.50 reported in the 2018/19 regulatory review period and audited in the DNV external assurance report 'Independent Limited Assurance Report to the Directors of SP Transmission plc'

- The replacement of transformers/reactors at Erskine, Johnstone and Wishaw during 2018/19.
- Major engineering works associated with the replacement of worn-out switchgear and transformers continued at 132 kV (Chapelcross) and 275 kV substations (Currie, Kaimes, Strathaven and Wishaw) substations.
- In accordance with the Issuer's asset strategy, asset replacement and refurbishment work was undertaken to improve the asset health of a number of 400 kV, 275 kV and 132 kV OHL routes. This included:
 - Continuation of work on two 275 kV routes – Kaimes to Cockenzie and Dalmally to Windyhill. These routes are being modernised as part of a wider programme that ensures outage availability is coordinated in an optimal manner with other projects, with full project completion expected during 2019.
 - Commencement of works on V-route 132kV overhead line between Galashiels, Hawick and Harker, which is scheduled for completion by the end of RIIO-T1.

The aforementioned major refurbishment works are supported by a programme of minor works to maintain the reliability and performance on other OHL until they are due for major works in the future. This approach ensures that the network assets are modernised in an efficient manner without compromising long-term customer service.

The Issuer has embedded innovation within its RIIO-T1 projects as referred to above. These range from the HVDC sub-sea cable, where a research project is underway to develop HVDC cable condition monitoring technology, to a novel deployment of series compensation in a complex network environment. The Issuer continues to explore further opportunities to better utilise the existing network, for example to increase power capacity using composite core conductor to smaller substation footprints and wider adoption of digital technology.

The Issuer, supported by other transmission licensees and academics, was successful in securing funding from Ofgem for the Visualisation of Real Time System Dynamics project (**VISOR**) under the NIC mechanism in late 2013. The trial project commenced in 2014 and was commissioned during 2016/17 with full completion in December 2017. The Wide Area Monitoring (**WAM**) system proposed for the development and trial of VISOR will provide a new insight into the capability and dynamic performance of the transmission system in both planning and operational timescales.

The VISOR trial has provided the system operator with the ability and confidence to utilise the full capacity of the network where increasing volumes of wind generation lead to more volatile system flows, resulting in greater operating margins to maintain and manage network security. The Issuer continues to work with other transmission licensees to integrate the VISOR technology into business as usual practices to maximise the innovation benefits. The WAM system will also provide transmission network owners with a risk-mitigating measure in a period of uncertainty to help safeguard the network against high impact low probability events that may result in partial or widespread system failure.

The Network Innovation Competition (**NIC**) FITNESS (Future Intelligent Transmission Network Substation) (**FITNESS**) Project demonstrates a reduced outage and low risk approach to future substation monitoring, protection, automation, and control by enabling faster deployment, greater availability, improved safety and greater controllability with a reduced footprint and lower cost than conventional design. The solutions enabled by FITNESS facilitate reduced network costs and constraints, significantly benefitting customers. The first bay under this trial was successfully commissioned in July 2018. Since July 2018, Energy Networks has organised workshops and site

visits at Wishaw for stakeholders. The Issuer has so far hosted Ofgem, Scottish and Southern Energy Networks, Elia (Belgium), Vattenfall (Sweden) and independent consultants, demonstrating the application of RIIO NIC innovation funding in practical implementations and the Issuer's commitment to drive innovation to business as usual practises.

Through engagement with stakeholders, the Issuer has created a positive outlook for retaining innovation stimulus in future price controls to enable transformational innovation projects such as FITNESS, which has received considerable international recognition. The Issuer has further mobilised collaboration among utilities to drive international standards and suppliers for better standardisation of digital substations and driving the market to deliver to meet network owner's needs. It has also led to the digital substations initiative internally to prepare the Issuer's business for the roll-out of digital substations in RIIO-T2.

The Issuer, in collaboration with National Grid ESO, is also deploying hybrid synchronous compensators (**H-SC**) for the first time on the Great Britain transmission system. The H-SC will provide essential grid services such as inertia, short circuit level and reactive power largely depleted due to the closure of thermal generation plants on the network. This project (**Project Phoenix**) will ensure system stability and security is maintained with increasing levels of renewable generation and will enhance capacity for power flow on the network. Project Phoenix is currently in construction phase at the Neilston 275kV substation and has already generated valuable knowledge through its research and development work with the University of Strathclyde and the Technical University of Denmark. The Issuer is also engaging with National Grid ESO and an independent market consultant to enable commercial mechanisms to backfill grid services in future.

In September 2015, the Issuer was successful in securing funding under the Innovation Rollout Mechanism (**IRM**) from Ofgem. The IRM helps realise proven innovations that will provide long-term value for money to consumers before the next price control period. The funding supports a new type of conductor on parts of the Issuer's 400/275kV network to increase capacity; the alternative is to completely rebuild sections of the network. Whilst the associated projects were completed on schedule, in Autumn 2016, it was proposed to extend the current trial to 132 kV to fully utilise available funding to facilitate wider application of this technology.

In July 2018, Energy Networks was awarded the full Successful Delivery Reward of £1.6 million future revenue funding for project ARC (Accelerating Renewable Connections) and project VISOR reflecting successful delivery of two flagship innovation projects under the Ofgem NIC. These projects were both about releasing capacity in the transmission and distribution network to enable renewable generation to connect faster and at a lower cost while maintaining network security and stability. Both of these projects were completed on time and below budget while over-delivering on project outputs.

RIIO-T2

In the RIIO-T2 period (which will run from 2021), the role of the network will continue to evolve as the demands from the network continue to change. The generation landscape will undergo further radical change as existing nuclear generation closes and more renewable generation connects to the system. At the same time, demand patterns are expected to change as a result of the increase in electrification of transport and heat. This is expected to start to change the trend of reducing demand that the Issuer has seen over the last ten years. As a result of this transition, the role of the transmission network will become even more vital to the economy – transferring power across the country to facilitate greater interconnection and maintaining a coordinated national system. It has also been identified that there is a need to invest at the correct time to ensure there is no risk of stranded assets or creation of a barrier for customers.

All of these changes create a large amount of uncertainty which the load related plan for RIIO-T2 has looked to accommodate. This uncertainty is another of the key themes identified for RIIO-T2. In constructing the load related plan, it is critical to identify the future system requirements and also the funding mechanisms that are required to allow plans to flex to meet the emerging requirements, with minimal intervention from the regulator whilst still being suitably funded.

A number of emerging themes have been identified that have been factored into load related investment plans, including: a whole system approach to demonstrate coordination with stakeholders and other parties in the energy supply chain; ensuring the ongoing operability of the network as the generation landscape changes to be prepared for black start (which is the process of restoring the transmission electricity network to operation from a total or partial shutdown) or other high impact events on the system; and the risks of major load related projects being open to competitive delivery.

In the area of modernisation, RIIO-T1 has been characterised by large volumes of asset replacement and rebuilds; a strategy which will further evolve for RIIO-T2 and beyond. OHL investment includes an extensive programme of conductor replacement, in addition to a refurbishment programme, which is the most significant since the construction of the 275kV and 400kV networks in the 1960s and 1970s. In substations, there is a multi-price control programme to replace all bulk-oil and air-blast circuit breakers and a targeted programme of transformer replacements while cable investment is relatively modest following the major gas-compression replacement programme of 'Transmission Price Control Review 4'.

There have been two strands of development that have influenced the approach for RIIO-T2. The industry has moved towards a 'health x consequence = risk' approach for determining and optimising investment. This began with the 'Electricity Distribution' common methodology and is being implemented through the transmission Network Output Measures (**NOMS**) methodology for which the Issuer uses the Condition Based Risk Management (**CBRM**) tool to manage the data. This relies on modelling of the network's condition using observed data to estimate remaining asset lives and combines this information with the consequences of asset failure to provide a measure of asset risk which is consistent across asset categories. This relies on condition data to populate the model to provide a view of risk which is as accurate as possible and can be used to support better investment decisions.

The operations and maintenance plan has been created by a reappraisal of all maintenance, inspection and faults activities, incorporating the new asset types, such as HVDC and series compensation, and reflecting the changing asset population. The maintenance policy is currently under review reflecting operational experience and best practice.

HEALTH AND SAFETY

Energy Networks is compliant with relevant health and safety legislation, such as The Health and Safety at Work Etc. Act 1974, The Electricity, Safety, Quality and Continuity Regulations (**ESQCR**) 2002 and the Electricity at Work Regulations 1989. Further, Energy Networks' management systems are independently externally assessed and certificated to the latest international standards, notably the Occupational Health and Safety Advisory Services Standard 18001 (**OHSAS 18001**).

Compliance with the above legislation and standards is considered the minimum requirement, with the ultimate aim being zero harm to employees, contractors and members of the public. Energy Networks is committed to improving public safety and awareness through its behaviours, investments in operational integrity and comprehensive public safety education programmes.

Energy Networks' plan for continuous improvement is illustrated by both internal and external management system assessments returning positive findings. The commitment to promptly investigate incidents to identify root causes remains steadfast and is given the highest priority with a panel of inquiry established whenever there is a significant incident. In addition to a focus on safety, Energy

Networks carries out robust risk based health surveillance programmes for employees together with more general well-being initiatives.

Energy Networks works closely with the industry trade body, the Energy Networks Association, to ensure that good practice is shared and innovation is promoted.

The table below provides key information relating to performance of Energy Networks with regard to health and safety:

	Notes	Actual year ended 31 March 2019	Target year ended 31 March 2019
Total recordable incident rate	(a), (b)	0.18	NTS
Lost time accidents	(c)	3	7
Occupational health monitoring	(d)	93%	90%
Audit and inspection programme completion	(e)	100%	100%

- (a) Total recordable incident rate (**TRIR**) is the summation of any incidents, be they lost time, medical treatment or leading to some work restriction per 100,000 hours worked.
- (b) No Target Set (**NTS**) - however the business set a target of 0.35 TRIR for employees for 2019.
- (c) This is the number of accidents involving Energy Networks employees on the job resulting in the loss of at least a day's work.
- (d) Occupational health monitoring is a measure of how Energy Networks meets its planned forecasts for those staff assessed as at risk.
- (e) Audit and inspection programme completion is the measurement of the planned internal management system audits and Energy Networks compliance inspections, both against Energy Networks' own staff and contracting partners.

During the previous year there has been a continued focus on employee involvement in health and safety, with corporate memory safety stand downs being held covering specific issues that are topical and specifically targeting root cause and learning from incidents. The stand-downs provide a forum for raising awareness and allow employees to openly debate and improve areas by focusing on changing behaviours.

Public safety engagement and education promotion has continued with a particular focus and engagement with the agricultural community.

Accolades

During 2018 and 2019, Energy Networks also won a number of awards:

- The Issuer received the 'BSI Kite Mark Certification for Customer Service' after completing a seven day audit. Energy Networks is the first utility company in the world to have achieved this new standard.
- The LV (**Low Voltage**) Engine project won the annual 'WSP Project Award for Scotland and North England' in the sustainability category. LV Engine is a NIC project funded by Ofgem which will build and test a number of smart transformers for use within secondary substations.
- Energy Networks received three awards at the Utility Week Stars Award 2018 event. The Energy Networks employees received the awards in the categories of 'Rising Star', 'Guiding Star' and 'Hero Team'.
- Energy Networks has won two major awards at the 2019 Network Awards for 'Network of the Year' and 'The Smart Cities Award'.

The Issuer was benchmarked first in the UK by Institute of Customer Service in 2019, versus seventh place last year.

CORPORATE GOVERNANCE

The Issuer's ultimate parent company, Iberdrola, is listed on the Spanish stock exchanges.

As a guiding principle, the Issuer adopts the principles and rules contained in the most widely recognised good governance recommendations. Iberdrola has its own corporate governance system, which is regularly reviewed by its Board of Directors, keeping it updated and including therein the good governance recommendations and best practices generally accepted in international markets.

ScottishPower, which includes all of Iberdrola's UK operations, operates on divisional lines and the activities of the Issuer fall within the Transmission and Distribution business within the Energy Networks' regulated business. ScottishPower, of which the Issuer is part, operates its own set of rules and principles which are based on widely recognised good governance recommendations while having regard to ScottishPower's position as part of the wider Iberdrola group.

Board and management meetings

The Issuer is governed by a Board of Directors which, as at the date of the Offering Circular, is comprised of six directors, all of whom bring a broad range of skills and experience to the Issuer. Three of the six directors are independent non-executive directors.

The directors of the Issuer are subject to annual evaluation of their performance in respect of their executive responsibilities as part of the performance management system which is in place throughout ScottishPower.

The members of the Board of Directors are shown below. The Secretary of the Board of Directors is Seumus O'Gorman.

Name	Function	Business Address	Principal activities performed outside of the Issuer
Frank Mitchell	Executive Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Director of SPENH and the Electricity Networks Association. Chair of the EU Eurelectric Committee, the Energy Skills Advisory Group for Scotland and Skills Development Scotland. Member of the Independent Glasgow Economic Leadership Board and the Scottish Energy Advisory Board.
Scott Mathieson	Executive Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Director of Scottish Power Energy Networks Holdings Limited, SP Manweb plc and SP Distribution plc.

Pearse Murray	Executive Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Director of NGET/SPT Upgrades Limited
Wendy Barnes	Sufficiently Independent Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Independent non-executive director of SPENH. Independent non-executive director and “sufficiently independent director” of SP Manweb plc and SP Distribution plc. Non-executive director of Southern Water Services Ltd (as a representative of shareholder, Greensands), OCS Group UK, BMT Group and Chester Cathedral Enterprises Limited. Director of Templar Executives and Practiq Consulting Limited. Chair of the SPENH Audit and Compliance Committee, OCS Group UK Audit Committee, OCS Group UK Remuneration and Nomination Committee and BMT Group Remuneration Committee. Member of the BMT Group Audit Committee.
Professor Dame Lesley Anne Glover	Sufficiently Independent Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Independent non-executive director of SPENH. Independent non-executive director and “sufficiently independent director” of SP Manweb plc and SP Distribution plc. Special Advisor of the University of Strathclyde. President and member of the Royal Society of Edinburgh. Chair and member of the Industrial Biotechnology Innovation Centre. First Minister and member of Scotland’s Standing Council on Europe. Member of Scottish Enterprise and Offshore Renewable Energy Catapult.
Alison McGregor	Sufficiently Independent Director	Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre, Scotland, G72 0HT	Independent non-executive director of SPENH. Independent non-executive director and “sufficiently independent director” of SP Manweb plc and SP Distribution plc. Non-executive director of the Confederation of British Industries and Beatson Cancer Charity Board. Advisor to the Board at Glasgow University Adam Smith Business School. Member of the Audit and Compliance Committee of SPENH.

There are no potential conflicts of interests between the duties owed by the members of the SP Transmission Board to the Issuer and their private interests or other duties. None of the members of the SP Transmission Board performs any significant activities outside the Issuer.

RECENT EVENTS

There are no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of its solvency.

ALTERNATIVE PERFORMANCE MEASURES

The Issuer considers that the following metrics referenced in or in connection with this Offering Circular constitute Alternative Performance Measures (**APMs**) as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures:

These APMs are not audited, reviewed or subject to review by Issuer's auditors and are not measurements required by, or presented in accordance with, International Financial Reporting Standards as adopted by the EU (**IFRS-EU**). Accordingly, these APMs should not be considered as alternatives to any performance measures prepared in accordance with IFRS-EU. Many of these APMs are based on Issuer's internal estimates, assumptions, calculations, and expectations of future results and there can be no guarantee that these results will actually be achieved. Accordingly, investors are cautioned not to place undue reliance on these APMs.

Furthermore, these APMs, as used by the Issuer, may not be comparable to other similarly titled measures used by other companies. Investors should not consider such APMs in isolation, as alternatives to the information calculated in accordance with IFRS-EU, as indications of operating performance or as measures of Issuer's profitability or liquidity. Such APMs must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS-EU and investors are advised to review these APMs in conjunction with the audited consolidated annual financial statements incorporated by reference in this Offering Circular.

APM	Definition of APM	Reconciliation	Rationale for inclusion
Capital Investment	Spending on the Issuer's transmission facilities in the course of construction over the period.	Power, plant and equipment additions (see pages 34 to 35 of the Issuer's 2018 Annual Report).	Capital Investment is used to monitor spending on assets that will ultimately become part of the Issuer's regulated transmission assets.
Net Debt	Loans and other borrowings less deposits and cash outstanding as at the balance sheet date.	Cash less group loans payable (see page 4 of the Issuer's 2018 Annual Report).	Net Debt is used to compare the actual net debt position relative to the Ofgem Regulatory Notional Gearing Assumption percentage.
EBITDA	Earnings before interest, tax, depreciation and amortisation (EBITDA)	Gross operating profit (see page 19 of the Issuer's 2018 Annual Report).	Cash flow credit metric to indicate the annual amount of available cash resource to cover investment and pay for tax and interest and dividends.

FFO	Net profit plus depreciation and amortisation plus change in deferred tax, excluding changes in working capital (FFO)	Net profit plus Depreciation and amortisation charge, allowances and provisions plus annual deferred tax movement in the year. ⁴	Cash flow credit metric to indicate the annual net cash resource available to fund investment and pay dividends
RAV	The value ascribed by Ofgem to the capital employed in the licensee's regulated transmission business.	The RAV is calculated by summing an estimate of the initial market value of each licensee's regulated asset base at privatisation and all subsequent allowed additions to it at historical cost, and deducting annual depreciation amounts calculated in accordance with established regulatory methods. These vary between classes of licensee. A deduction is also made in certain cases to reflect the value realised from the disposal of assets comprised in the regulatory asset base. The RAV is indexed to RPI in order to allow for the effects of inflation on the licensee's capital stock.	Regulated Asset Value is used to determine regulated income and allowances

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	Year ended 31 December 2018	Year ended 31 December 2017
	£m	£m*
Reconciliation of FFO		
Net profit for the year (a)	153.5	149.1
Depreciation and amortisation charge, allowances and provisions (b)	79.5	62.5
Deferred tax movement in the year (c)	14.0	16.2
FFO	247.0	227.8

*Revenues restated (please refer to the Issuer's 2018 Annual Report).

(a) Please see page 19 of the Issuer's 2018 Annual Report.

(b) Please see page 19 of the Issuer's 2018 Annual Report.

(c) Please see page 44 of the Issuer's 2018 Annual Report.

Net Debt / RAV	Net Debt divided by RAV.	Net Debt divided by RAV. ⁵	Used to monitor the Issuer's Net Debt as a percentage of its regulated income and allowances.
FFO / Net Debt	FFO divided by Net Debt.	FFO divided by Net Debt. ⁶	Used to monitor the ability of the Issuer to pay of its Net Debt from annual net cash flows available.
Net Debt / EBITDA	Net Debt divided by EBITDA.	Net Debt divided by EBITDA. ⁷	Used to measure the amount of income available to the Issuer which is available to pay down its Net Debt.

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Reconciliation of Net Debt / RAV	FY 2018	FY 2017
Net Debt (£m)	(1,315.2)	(1,323.6)**
RAV (£m)*	2,433.4	2,318.4
Net Debt / RAV* (%)	54.0	57.1

*Using Net Debt position as of 31 December and RAV position as of 31 March

** Net Debt restated (please refer to the Issuer's 2018 Annual Report).

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Reconciliation of FFO / Net Debt	Year ended 31 December 2018	Year ended 31 December 2017
FFO (£m)	247.0	227.8
Net Debt (£m)	(1,315.2)	(1,323.6)*
FFO / Net Debt (%)	18.8	17.2

*Net Debt restated (please refer to the Issuer's 2018 Annual Report).

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Reconciliation of Net Debt / EBITDA	Year ended 31 December 2018	Year ended 31 December 2017*
Net Debt (£m)	(1,315.2)	(1,323.6)
EBITDA (£m)	300.9	276.1
Net Debt / EBITDA	4.4x	4.8x

*Figures restated (please refer to the Issuer's 2018 Annual Report)

TAXATION

United Kingdom

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and published HM Revenue and Customs (HMRC) practice (which may not be binding on HM Revenue & Customs) in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future (possibly with retrospective effect). Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payment of interest on the Notes

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

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

SUBSCRIPTION AND SALE

Banco Santander, S.A., Barclays Bank PLC, HSBC Bank plc and NatWest Markets Plc (the **Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 11 November 2019, jointly and severally agreed, subject to the satisfaction of certain conditions, to subscribe for the Notes at an issue price of 99.469 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Managers a combined management and underwriting commission and will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to the issue of the Notes.

United States

The Notes have not been and will not be registered under the U.S. 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 meaning given to them by Regulation S under the Securities Act.

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

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

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

United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the **FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Regulation; and
- (b) the expression **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

General

No action has been taken by the Issuer, or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 29 October 2019.

Listing

2. Application has been made to (i) the FCA for the Notes to be admitted to listing on the Official List and (ii) the London Stock Exchange for such Notes to be admitted to trading on the Market. The listing of the Notes is expected to be granted on or about the Closing Date subject only to the issue of the Temporary Global Note.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The (i) ISIN for this issue is XS2068966048, (ii) Common Code is 206896604, (iii) FISN is SP TRANSMISSION/2 BD 20311113 REGS, as updated, as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN and (iv) CFI is DBFUFB, as updated, as set out on the website of ANNA or alternatively sourced from the responsible National Numbering Agency that assigned the ISIN.

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

No significant change

4. There has been no significant change in the financial performance or financial position of the Issuer since 31 March 2019 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 March 2019.

Litigation

5. The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or has in such period had a significant effect on the financial position or profitability of the Issuer.

Auditors

6. The auditors of the Issuer are KPMG LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. The auditors have audited the Issuer's accounts, without qualification, in accordance with IFRS as adopted by the EU for the financial years ended 31 December 2017 and 31 December 2018. The auditors have also audited the special purpose regulatory accounts, without qualification, for the regulatory years ended 31 March 2018 and 31 March 2019. The regulatory accounts are prepared in accordance with Standard Condition B1 of the company's Regulatory Licence, and IFRS as adopted by the EU as at the date of approval of those accounts. The auditors of the Issuer have no material interest in the Issuer.

U.S. tax

7. The Notes (other than the Temporary Global Note) and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code of 1986, as amended."

Documents Available

8. For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection on www.scottishpower.com (unless otherwise stated):
 - (a) the Articles of Association of the Issuer (which can be found at: https://www.spenergynetworks.co.uk/userfiles/file/Articles_of_Association_SPT.pdf);
 - (b) the Fiscal Agency Agreement and the forms of the Global Notes, the Notes in definitive form and the Coupons; and
 - (c) a copy of this Offering Circular together with any supplement to this Offering Circular.

Managers transacting with the Issuer

9. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Interests of natural legal persons involved in the issue of the Notes.

10. Save for the fees payable to the Managers, the Fiscal Agent and the Paying Agents, so far as the Issuer is aware, no person, natural or legal, involved in the issue of the Notes has an interest that is material to the issue of the Notes.

Post-Issuance Information

11. The Issuer does not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

Yield

12. On the basis of the issue price of the Notes of 99.469 per cent. of their principal amount, the yield on the Notes is 2.040 per cent. on a semi-annual basis. The Yield is calculated on the Closing Date on the basis of the issue price of the Notes. It is not an indication of future yield.

Legal Entity Identifier (LEI)

13. The LEI code of the Issuer is 21380066GRV5QOWJZC71.

THE ISSUER

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