

**NIE Finance plc**  
*(incorporated with limited liability in Northern Ireland)*  
£350,000,000 2.500 per cent. Guaranteed Notes due 2025

**unconditionally and irrevocably guaranteed by**  
**Northern Ireland Electricity Networks Limited**  
*(incorporated with limited liability in Northern Ireland)*

**Issue price: 99.865 per cent.**

The £350,000,000 2.500 per cent. Guaranteed Notes due 2025 (the **Notes**) are issued by NIE Finance plc (the **Issuer**). The payments of all amounts in respect of the Notes will be unconditionally and irrevocably guaranteed by Northern Ireland Electricity Networks Limited (the **Guarantor**).

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. Interest on the Notes will accrue from, and including, 27 September 2018 at the rate of 2.500 per cent. per annum and will be payable annually in arrear on 27 October in each year, commencing on 27 October 2019.

The Notes are subject to early redemption and the Issuer may, at its option, redeem all, but not some only, of the Notes either (i) at any time at par plus accrued interest, in the event of certain tax changes, (ii) at any time on or prior to 27 July 2025 at par or, if higher, an amount calculated by reference to yields on UK Treasury Stock plus a margin of 0.20 per cent., plus accrued interest, or (iii) at any time after 27 July 2025 at par plus accrued interest, each as described under "*Conditions of the Notes - Redemption and Purchase*". In addition, upon the occurrence of certain events described under "*Conditions of the Notes - Redemption at the Option of the Holders*", 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 27 October 2025.

This document has been approved by the United Kingdom Financial Conduct Authority, in its capacity as the United Kingdom competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the purposes of Directive 2003/71/EC, as amended (including by Directive 2010/73/EU) (the **Prospectus Directive**) and relevant implementing measures in the United Kingdom, as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made for the Notes to be admitted to listing on the Official List of the UK Listing Authority (the **Official List**) and to trading on the regulated market (the **Market**) of the London Stock Exchange plc (the **London Stock Exchange**). The Market is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (**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 Joint Lead 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 are expected on issue to be rated BBB+ by S&P Global Ratings Europe Limited (**S&P**). The Guarantor has been assigned a corporate rating of BBB+ (negative outlook) 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. 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 27 September 2018 (the **Closing Date**) with a common safekeeper for Euroclear Bank S.A./N.V. (**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 in certain limited circumstances in whole, but not in part, for definitive Notes in bearer form 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 Provisions relating to the Notes while represented by the Global Notes*".

**An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.**

*Joint Lead Managers*

**BARCLAYS**

**HSBC**

**NATWEST MARKETS**

**RBC CAPITAL MARKETS**

The date of this Offering Circular is 25 September 2018

This Offering Circular comprises a prospectus for the purposes of Article 5 of the Prospectus Directive.

The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that this Offering Circular contains all material information with respect to the Issuer, the Guarantor and the Notes (including all information which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor and of the rights attaching to the Notes), that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which would make this Offering Circular or any of such information or the expression of any such opinions or intentions misleading. The Issuer and the Guarantor accept responsibility accordingly.

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

Neither the Joint Lead Managers (as defined in "*Subscription and Sale*", below), any of their respective affiliates nor Citicorp Trustee Company Limited (the **Trustee**) have independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the offering of the Notes. No Joint Lead Manager or the Trustee 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 or the Guarantor in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer, the Guarantor or the Trustee 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, the Guarantor, any of the Joint Lead Managers or the Trustee.

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, the Guarantor, any of the Joint Lead Managers or the Trustee 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 and/or the Guarantor. 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 the Guarantor, any of the Joint Lead Managers or the Trustee 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 and/or the Guarantor 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 Joint Lead Managers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Notes or to advise any

investor in the Notes of any information coming to their attention. The Notes may not be offered, sold or delivered within the United States or to U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements under the Securities Act is available. The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. 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, the Guarantor, the Joint Lead Managers and the Trustee 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, the Guarantor, the Joint Lead Managers or the Trustee 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; (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 MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (**IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (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.**

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 the Notes 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, but not limited to, any currency exchange risk where the currency for principal, premium or interest payments is different from the potential investor's main operating currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant 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.

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

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

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## **RISK FACTORS**

*Each of the Issuer and the Guarantor 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 neither the Issuer nor the Guarantor is 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.*

*Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer or the Guarantor to pay interest, principal, premium 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 and the Guarantor based on information currently available to them or which they 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's principal purpose is to provide funding, through the international capital markets, to the Guarantor. Therefore, the Issuer's ability to fulfil its obligations under the Notes is entirely dependent on the performance of the Guarantor, as a result of which, in considering the risks that may affect the Issuer's ability to fulfil such obligations, potential investors should focus on the risk factor analysis set out below in respect of the Guarantor and its ability to fulfil its obligations under the Guarantee (as defined in Condition 3.1 below), which is equally meaningful to the Issuer's ability to fulfil its obligations under the Notes.

### **Factors that may affect the Guarantor's ability to fulfil its obligations under the Guarantee**

#### ***Regulatory Requirements***

The electricity industry is subject to extensive regulatory obligations with which the Guarantor must comply. Non-compliance could have an adverse effect on the Guarantor's financial position, reputation and profitability.

#### ***Changes in Law or Regulation and Decisions by Governmental Bodies or Regulators***

The majority of the Guarantor's business activities are carried out in regulated markets and are therefore subject to regulation. The principal regulatory risks faced by the Guarantor originate from legislation and licence compliance, ring-fencing requirements, the impact of price control, agreements with regulatory authorities, evolving EU regulatory and climate change frameworks and changes to market mechanisms such as the Single Electricity Market (**SEM**).

The Guarantor is subject to regulation by the Northern Ireland Authority for Utility Regulation (**NIAUR**) and the Department for the Economy (**DfE**).

In addition, changes in law or regulation or regulatory policy in Northern Ireland, including but not limited to regulated rates of return, the basis on which such rates of return are calculated or changes in margins earned by the Guarantor, could impact adversely on the Guarantor's financial performance. Decisions or rulings of either body, of the Secretary of State, or of the UK Competition and Markets Authority (**CMA**) could have a material adverse impact on the Guarantor's results of operations, cash flows, the financial condition of the Guarantor's business and the ability to develop that business in the future. See the Business Description of the Guarantor for further details on the Guarantor's regulatory environment and factors that impact the Guarantor's regulatory arrangements.

EC Directive 2009/72/EC is part of a package of EU legislation on European electricity and gas markets which aims to liberalise further the European energy markets. The Guarantor is the owner of the transmission and distribution networks in Northern Ireland and is the distribution network operator. SONI Limited (**SONI**) is the transmission system operator and is responsible for transmission system planning and operation.

Failure by the Guarantor to comply with the terms of its Participate in Transmission Licence and Electricity Distribution Licence (together referred to as the **Licences** and each a **Licence**) may lead to NIAUR making an enforcement order or levying a fine on the Guarantor. While the Licences may be revoked on 30 days' notice in exceptional circumstances, such as in the event of insolvency proceedings or for non-compliance with an enforcement order after three months, each Licence continues indefinitely unless revoked following no less than 25 years' written notice. NIAUR has formal powers to modify each Licence.

### ***Environmental, Climate Change and Health and Safety Laws or Regulations***

Aspects of the Guarantor's activities are potentially dangerous, such as the operation (to the extent applicable to the Guarantor) and maintenance of the transmission and distribution networks and the distribution of electricity. The Guarantor is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These expose the Guarantor to costs and liabilities relating to the Guarantor's operations and properties whether current, including those inherited from predecessor bodies, or formerly owned by the Guarantor and sites used for the disposal of its waste.

The freehold of certain power station sites in Northern Ireland is held by the Guarantor in a quasi-trustee role regulated under the terms of the Guarantor's Electricity Distribution Licence and known as the "Land Bank Business". The Guarantor is responsible for decommissioning and potentially decontaminating certain sites included within the land bank following the termination of power generation activities. Such costs are recoverable under the Guarantor's Electricity Distribution Licence and all such costs incurred to date have been recovered but there remains a risk that NIAUR could prevent recovery of future costs, which could have negative implications for the Guarantor's financial position.

The Guarantor is also subject to laws and regulations in Northern Ireland governing health and safety matters protecting its employees, contractors, the public and third parties. These laws and regulations are enforced by the Health and Safety Executive for Northern Ireland (**HSENI**).

The Guarantor commits significant resources towards ensuring compliance with the above mentioned laws and regulations. Nevertheless, there is a risk that fatalities or serious injuries may occur which involve employees, contractors, members of the public and third parties. Any such incident could expose the Guarantor to potential liability and/or loss of reputation.

In addition, breaches of applicable environmental or health and safety laws or regulations could expose the Guarantor to penalties, claims for financial compensation and/or adverse regulatory consequences. Furthermore, there can be no assurance that costs of compliance with applicable health, safety and environmental standards and regulations will not increase and any such increased costs could adversely affect the Guarantor's financial performance.

### ***Financing***

The Guarantor's financial position could be affected by significant changes in interest rates and financial market conditions. The Guarantor's business is currently financed through cash generated from its ongoing operations, intercompany loans and an issuance of listed debt securities. The Guarantor is subject to certain covenants and restrictions in relation to its listed debt securities. In addition, restrictions imposed by regulators may also limit the manner in which the Guarantor services the financial requirements of its business.

As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if the Guarantor were unable to access the capital markets or other sources of finance at

competitive rates for a prolonged period, the Guarantor's cost of financing may increase. The occurrence of any such events could have a material adverse impact on the Guarantor's business, results of operations and prospects.

### ***Inflation and Deflation***

The Guarantor's business is subject to price controls set by NIAUR as set out in more detail in the Business Description of the Guarantor. The Guarantor's income under its price controls in Northern Ireland is linked to the retail price index. There is a risk that the Guarantor's results of operations and cash flows may be adversely affected if its costs increase by more than the retail price index or if its costs do not decline and the retail price index decreases.

### ***Compliance with Competition, Market Abuse and Procurement Laws***

The Guarantor as owner and operator of some of the key energy infrastructure and services in Northern Ireland may have associated obligations under competition law. The Guarantor is subject to applicable EU and national legislation prohibiting market abuse and insider dealing in respect of certain products. In addition, the Guarantor is subject to public procurement law and the provisions of Directive 2014/25/EU.

Whilst the Guarantor has various policies and procedures in place, which seek to ensure compliance with relevant competition and procurement legislation, any failure by the Guarantor to comply with relevant law could result in penalties being imposed on the Guarantor. The imposition of any such penalties may have an adverse effect on the Guarantor's business, results of operations, prospects and/or financial condition.

### ***Competition***

In June 2016 a competitive market was established, in respect of new connections to the distribution system in Northern Ireland with capacities of 5MW and greater. The competitive market allows independent connection providers (**ICPs**) to undertake elements of the connection works that are open to competition. Two out of six relevant connection offers over 5MW issued and accepted since that date will have elements of the connection works open to competition delivered by an ICP. As from 28 March 2018, the competitive market has applied to all new connections to the distribution system, including connections under 5MW. As of the date of this Offering Circular, a small proportion (less than 2 per cent.) of offers under 5MW issued and accepted will have elements of the connection works delivered by an ICP, albeit a number of connection offers issued since that date remain open for acceptance. The Guarantor's business has restructured in preparation for the competitive market in distribution connections. However, there can be no assurance that existing or increased competition will not adversely affect the financial position of the Guarantor.

### ***Power Procurement Business Guarantee***

The Guarantor currently acts as guarantor for certain obligations of Power NI Energy Limited's (formerly NIE Energy Limited) Power Procurement Business (**PPB**). PPB is part of the Viridian group of companies (the **Viridian Group**). In 1992, PPB contracted to purchase the output from three power stations in Northern Ireland under Power Purchase Agreements. The majority of these Power Purchase Agreements have now expired or been cancelled; however, PPB continues to purchase the output from two Combined Cycle Gas Turbines at the Ballylumford power station, which output it then trades into the SEM. As part of the introduction of the SEM in 2007, PPB was transferred to Power NI Energy Limited, and in connection with this transfer the Guarantor guaranteed PPB's performance under the Power Purchase Agreements. The guarantee from the Guarantor can be called upon if PPB fails to make payments. However, it is noted that (i) PPB is a regulated business with costs and exposures under its Power Purchase Agreements covered by its price control; (ii) recovery is made through a PSO charge (being the Public Service Obligation charge, a charge levied on all units of electricity sold in Northern Ireland) applied by the Guarantor; and (iii) additionally, in the event of PPB not so recovering, under contractual agreements relating to the sale of the Guarantor, there is provision for the recovery from certain companies within the Viridian Group of amounts paid out by the Guarantor under these PPB guarantees, with a potential risk of non-recovery if the Viridian entities were unable to pay.



## ***Litigation***

The Guarantor is, from time to time, involved in legal proceedings.

The Guarantor is currently awaiting a ruling from the Court of Appeal in Northern Ireland with regards to certain injurious affections claims. Injurious affection relates to claims for compensation made against an electricity network company for the adverse effect the presence of transmission and distribution network assets on a claimant's land is alleged to have had on the value of that land or property. In June 2014, the Lands Tribunal heard four test cases and awarded compensation (totalling £45,500.00) to the claimants in two of those cases and the Guarantor was subsequently ordered to pay the claimants' costs in each of the four cases. The Guarantor has appealed the compensation awards and costs awards to the Court of Appeal. The Court of Appeal's decision was expected in 2017 but the Guarantor is still awaiting the decision.

It is noted that the RP6 (as defined below) price control includes provision for NIAUR to make an allowance for the recovery of costs relating to injurious affections claims. To the extent that NIAUR does not make an allowance, any adverse result in relation to such claims could have an adverse effect on the Guarantor's financial position, reputation and profitability.

## **Financial risks**

### ***Pension Scheme***

The Guarantor participates in the Northern Ireland Electricity Pension Scheme (the **NIE Networks Scheme**) which includes a defined benefit section and a defined contribution section. The defined benefit section of the NIE Networks Scheme is currently in deficit to the value of £127 million (as at 31 December 2017 on an IAS19 basis) and, following the completion of a triennial review at 31 March 2017, an eight-year deficit repair plan was agreed with the trustees of the NIE Networks Scheme.

The amount and timing of future funding obligations in respect of the defined benefit section of the NIE Networks Scheme are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements, changes to which could result in the Guarantor having to make additional contributions to the NIE Networks Scheme.

NIAUR concluded, in its final determination for Regulatory Period 6 (**RP6**) which commenced on 1 October 2017 and will apply for the period to 31 March 2024, that any deficits in the participating schemes (which includes the NIE Networks Scheme) should be split into historic and incremental deficits using the OFGEM Pension RIGS methodology; the cut-off date for the historic deficit being 31 March 2012. The NIAUR's approach to treating pension deficits in RP6 mirrors the CMA approach adopted in Regulatory Period 5 (**RP5**).

The RP6 price control allowance for the historic deficit matches the deficit repayment profile agreed with the pension scheme trustees of the NIE Networks Scheme, subject to an annual disallowance of £4.7 million (2015/16 prices) in respect of costs associated with early retirement schemes incurred by the Guarantor between 1997 and 2003. The RP6 price control mechanism makes no specific allowance in respect of the incremental deficit. This cost is deemed to be captured within the capex and indirect cost allowances which are based on benchmarking with the Great Britain network operators in future price controls.

There is a risk that the regulatory treatment of pensions' costs could change under future price controls which could have an adverse impact on the financial position of the Guarantor.

### ***New or Revised Accounting Standards, Rules and Interpretations***

The Guarantor currently prepares its annual financial statements under International Financial Reporting Standards (**IFRS**) as adopted by the European Union. The accounting treatment under IFRS of, among other

things, replacement expenditure, rate regulated entities, pension and post-retirement benefits, derivative financial instruments and commodity contracts, significantly affects the way the Guarantor reports its financial position and results of operations. New or revised standards and interpretations may be issued, which could have a significant impact on the financial results and financial position that the Guarantor reports. The effective rate of tax of the Guarantor may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate and therefore have a material adverse impact on its results of operations.

### ***Credit Risk***

The Guarantor's business derives its revenue principally from charges for use of the distribution system, PSO charges, and charges for transmission services levied on SONI.

The Guarantor has received security in respect of its trade receivables from electricity suppliers in the form of cash deposits, letters of credit or parent company guarantees. The majority of payments in relation to new connections or alterations are paid for in advance of the work being carried out. The Guarantor may be exposed to credit-related loss in the event of non-performance by bank counterparties and public bodies.

### ***Inflation linked swaps***

The Guarantor earns regulated inflation linked revenue and is counterparty to inflation linked swaps indexed to the Retail Price Index, a type of derivative transaction. The Guarantor's obligations under these swaps are offset by intercompany reverse inflation linked swaps with its parent (**ESBNI Limited**) and both ESBNI Limited's ongoing payment obligations and any termination payments under the reverse swaps are guaranteed by its parent, Electricity Supply Board (**ESB**). These swap arrangements are structured such that the Guarantor will have no net swap cashflows.

Although the Guarantor has entered into the back-to-back offsetting swap arrangements and while all of the Guarantor's swap counterparties are rated investment grade entities, there is counterparty risk associated with all these transactions. Currently the Guarantor has a negative mark-to-market position under the swap arrangements.

### **Business Risks**

#### ***Business Performance***

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

#### ***Network, Plant and Other Infrastructure Performance and Security Risk***

The Guarantor's business includes the development and maintenance of electricity networks in Northern Ireland. Electricity networks are critical infrastructure for electricity users and for the economy in Northern Ireland. The risk of a major network failure or disruption of electricity supply is an inherent part of the business. For example, a failure or disruption to network performance, or damage to other infrastructure, could be a consequence of such factors as under-investment, inadequate maintenance, inadequate planning for future demand, system failure, severe weather conditions, flooding or natural disasters. In addition, sabotage or other intentional and unlawful acts of third parties may result in damage to, or destruction of, plant, networks and other infrastructure owned by the Guarantor. This could cause the Guarantor to fail to meet the standards of service with which the Guarantor is bound to comply, requiring the payment of specific penalties for default, or it could cause the Guarantor to be in breach of legislation, licences, approvals, regulatory requirements or contractual obligation, which could result in adverse regulatory and financial consequences. The Guarantor experienced one default against guaranteed standards of service in

2013, and one in 2017. The Guarantor had to pay compensation of £175.00 against the 2013 default and £25.00 against the 2017 default.

The potential consequences for the Guarantor of any of the above risks could include damage to reputation, material financial loss, risk of injury or death, and/or adverse regulatory action.

### ***Systems, Business Interruption and Outsourcing***

The Guarantor's ability to manage its operations and engage in critical business tasks is dependent on the efficient and uninterrupted operation of its IT, software, hardware and communication systems. The Guarantor is also reliant on key personnel and suppliers who provide, operate or maintain these systems and on the IT, software, hardware and communication systems used by third parties in the course of their dealings with the Guarantor. The Guarantor outsources a range of important information and communication technology (**ICT**) and business process services. Whilst comprehensive business continuity and disaster recovery plans are maintained to manage this risk, there is a risk of disruption to the Guarantor if there are service delivery failures which may have an adverse impact on the Guarantor's business, reputation, results of operations, operating costs, prospects and/or financial condition.

### ***Information Security***

The confidentiality, integrity and availability of information could be affected by factors that include human error, ineffective design or operation of key controls, data theft or through cyber attack. Loss of data integrity and any compromise of the availability, or confidentiality, of information held by the Guarantor could affect the Guarantor's ability to conduct day-to-day operations and may have an adverse impact on the Guarantor's business, reputation, results of operations, operating costs, prospects and/or financial condition. The Guarantor seeks to comply with legislation (including the Networks and Information Systems Directive (**NIS Directive**)) relating to the security of its network and information systems. The Guarantor treats the security of its information and systems with the upmost seriousness and employs a range of best practice cyber security measures to protect from such attacks. There can be no assurance, however, that such measures will be successful.

### ***Data Protection***

The Guarantor's activities involve the collection and processing of personal data relating to customers and employees. Any breach of data protection laws could result in a complaint being made to the relevant authorities. The data protection authority in Northern Ireland has the power to investigate data protection breaches and has a number of remedies at its disposal including the issue of enforcement and/or information notices, criminal prosecution and the naming of non-compliant organisations in its annual reports. The Guarantor has policies, procedures and dedicated personnel in place which are designed to ensure that it remains compliant with its data protection obligations. Nevertheless, any failure by the Guarantor to comply with relevant law could result in penalties being imposed on the Guarantor. The imposition of any such penalties may have an adverse effect on the Guarantor's business, results of operations, prospects and/or financial condition.

In addition, the General Data Protection Regulation (EU) 2016/679 (the **GDPR**) came into direct effect in all EU Member States from 25 May 2018 and replaced current EU data privacy laws. Although a number of basic existing principles remain the same, the GDPR introduced many new obligations on data controllers and some new rights for data subjects. The GDPR also introduced new fines and penalties for breaches of GDPR requirements, including fines of up to the higher of either: (i) 4% of annual worldwide turnover in the preceding financial year or €20m; or (ii) 2% of annual worldwide turnover in the preceding financial year or €10m, depending on which GDPR requirement has been breached. While the Guarantor has taken measures to comply with GDPR, including making changes to its IT systems, any breach of these measures may result in monetary sanctions, as well as reputational damage, which may have an adverse effect on its business, results of operations, prospects and/or financial condition.

### ***Labour Relations, Staff Selection and Retention***

The Guarantor's average number of employees in 2017 was 1,284. There has been no strike action by the Guarantor's group employees since privatisation, however, any industrial action by employees could affect critical services, curtail operations and have an adverse financial and reputational impact on the Guarantor and/or result in adverse regulatory action.

The Guarantor's ability to implement its long-term business strategy depends on the capabilities and performance of its personnel. The Guarantor operates within a competitive market for talent and highly valued skills which is managed through ongoing technical and graduate recruitment programmes and competitive remuneration packages. Low employee morale, loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited) could affect the Guarantor's ability to implement its long-term business strategy and may have a material adverse effect on its business, financial condition, results of operations and prospects.

### ***Project Execution and Delivery***

Project execution by the Guarantor may be subject to commercial, construction, technical, contractor, planning permission, relevant approvals, operational, regulatory and economic risks. Failure to secure an appropriate revenue structure is an additional key risk for any project. Changes to the law or failure to deliver planned new projects to successful technical and commercial operation could have a material adverse effect on the Guarantor's business, results of operations, operating costs, prospects and/or financial condition.

### ***Customer Service***

Adherence by the Guarantor to consumer standards is closely monitored. However, if the Guarantor fails to meet consumer service expectations or fails to deliver the overall and guaranteed standards of service agreed with NIAUR, this could result in damage to the Guarantor's reputation and compensation payments to consumers.

### ***Insurance***

The Guarantor seeks to maintain insurance cover on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance cover acquired by the Guarantor provides adequate or sufficient cover for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable premia.

### ***Procurement and Supply Chain Risk***

In order to support its core business activities, it is necessary for the Guarantor to purchase commodities, resources and other products and services. Significant price rises and/or failure to secure key materials could have a significant adverse effect on the Guarantor's operations and/or financial position. To mitigate this risk the Guarantor enters into fixed price multi-vendor contracts where possible to protect its commercial position and seeks to ensure alternative suppliers are available in the event of supply chain failure. In addition, costs incurred in sourcing materials are added to the Regulatory Asset Base (**RAB**), as specified in the Licences.

### ***Price Control***

NIAUR sets price controls for the Guarantor as described in more detail in the Business Description of the Guarantor. RP6 commenced on 1 October 2017 and will cease on 31 March 2024. While the price control sets out the framework for capital projects over this period there remains uncertainty regarding timing and approvals for certain capital projects such as the North South Interconnector. Allowances will however be agreed with NIAUR in due course in this regard. However, there can be no assurance that such allowances

will be adequate. RP6 introduced a customer minutes lost reliability incentive scheme which allows for a financial reward for achievement of targets and a financial penalty where targets are not achieved of plus/minus 1.5% of annual distribution revenue. The price control also provides for a 50:50 gain/loss sharing mechanism for costs within the regulated business (excluding certain connections work, licence fees which are pass-through and pension deficit), whereby the Guarantor will be able to reclaim 50% of any overspend above allowances for these costs but similarly will need to return 50% of any savings over and above allowances for these costs.

Regulatory Period 7 (**RP7**) will commence on 1 April 2024. It is anticipated that this will be subject to submission of a Business Plan by the Guarantor and subsequent public consultation and approval by NIAUR prior to this date. It is not possible to predict the impact of future price controls on the Guarantor's business.

### ***I-SEM***

The redesign of the Irish wholesale electricity market to create the Integrated Single Electricity Market (**I-SEM**) is primarily driven by the Third Energy Package, and the EU Target Model for electricity, which are designed to harmonise cross-border trading arrangements across all European electricity markets, in addition to requirements for market based capacity remuneration schemes under EU State Aid rules. I-SEM will place a greater emphasis on market based mechanisms of price formation over the more regulated mechanisms within the SEM. The new arrangements for I-SEM are due to be implemented by October 2018.

The main impact on the Guarantor will be the impact on its responsibilities for meter data provision. The Guarantor has undertaken significant engagement with the Commission for Regulation of Utilities (**CRU**) in the Republic of Ireland and NIAUR and other meter data providers within the I-SEM project to ensure continuity of meter data provision services. The Guarantor has established a new file transfer service which connects automatically to I-SEM systems to provide the wholesale settlement data as per agreed timelines. In conjunction with the new service, the Guarantor will continue to provide wholesale settlement data to the current SEM systems until it expires 13 months after the I-SEM go live.

### ***“Brexit” Risk***

Following the result of the referendum on the UK's continued membership of the EU and the passing of the European Union (Notification of Withdrawal) Act 2017, the formal process of the UK leaving the EU was triggered on 29 March 2017. There is a risk that withdrawal from the EU and the negotiation process leading up to such withdrawal, or the breakdown or other outcome of such process, may have a negative impact on the UK economy.

No such assurances can be given on the impact of the UK leaving the EU on the Guarantor, including the impact on the I-SEM arrangements. The Guarantor continues to monitor the current and emerging “Brexit” related impacts as these become apparent, the outcome of which could have a material adverse effect on the Guarantor's business, operating costs, prospects and/or financial condition.

### ***Guarantor's credit rating***

In determining the Guarantor's credit rating, S&P takes into account the credit rating of the Guarantor's indirect shareholder, ESB. Therefore, if ESB's credit rating is revised, it is possible that the Guarantor's credit rating will also be revised. Therefore, risks relevant to ESB's credit rating may be relevant to the Guarantor's credit rating and/or to the rating ascribed to the Notes.

In particular, in 2017, the Government of Ireland announced an intention to introduce new legislation (the Social Welfare, Pensions and Civil Registration Bill 2017) which, among other things, contains key measures to increase protections for members of defined benefit occupational pension schemes. While detailed pensions provisions have yet to be published, there is a risk that the new legislation could, depending on the form in which it is enacted, change the nature of ESB's obligations to its defined benefit occupational pension scheme. In doing so, it could have adverse financial consequences for ESB, which could result in a change to ESB's credit rating(s). Any such change to ESB's credit rating(s) could have a

consequential impact on the credit rating assigned to the Guarantor and/or the Notes. ESB has engaged with its Government shareholder departments and understands that it is intended that the new legislation will be introduced in a manner that will not have any such adverse financial consequences for ESB. However, until the new legislation has been enacted, there remains a residual risk that the new legislation may have adverse financial consequences for ESB that may affect its credit rating(s) and, therefore, the credit rating of the Guarantor and/or the Notes. For the avoidance of doubt, the new legislation will not apply to the Guarantor or have any impact on the nature of the Guarantor's obligations to the NIE Networks Scheme.

### **Risks related to the Notes generally**

Set out below is a brief description of certain risks relating to the Notes generally:

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

The Issuer may, subject as provided in Condition 7, redeem the Notes prior to their stated maturity date. This early redemption feature may limit the market value of the Notes. The market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed. In addition, depending on prevailing market conditions at the time, an investor receiving the proceeds of an early redemption of the Notes may not be able to reinvest those proceeds in a comparable security at an effective interest rate as high as that carried by the Notes.

#### ***Modification, waivers and substitution***

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.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and subject to the provisions of the Trust Deed, agree to (i) any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Conditions 14 and 15 (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders).

#### ***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.

#### ***No limitation on issuing pari passu securities***

There is no restriction on the amount of securities which the Issuer may issue and which rank *pari passu* with the Notes. The issue of any such securities may reduce the amount recoverable by holders on a winding up of the Issuer.

#### ***The denominations 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 generally**

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

#### ***The secondary market generally***

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be 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. As such, 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, the Guarantor and other entities in its group.

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

#### ***Exchange rate risks and exchange controls***

The Issuer will pay principal, premium and interest on the Notes and the Guarantor will make any payments under the Guarantee 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, are expected to be rated BBB+ by S&P. Any adverse change in an applicable credit rating could adversely affect the trading price for 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 or withdrawal at any time by the assigning rating agency.

In general, European regulated investors are restricted under the CRA Regulation from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless (1) the rating is provided by a non-EEA credit rating agency not established in the EEA but that is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). S&P is established in the European Union and is registered under the CRA Regulation.



## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, which have previously been published or are published simultaneously with this Offering Circular, and have been filed with the Financial Conduct Authority 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 2016 including the information set out at the following pages in particular:

Independent Auditor's Report	Pages 7-8
Income Statement	Page 9
Statement of Comprehensive Income	Page 9
Balance Sheet	Page 10
Statement of Changes in Equity	Page 11
Notes to the Accounts	Pages 12-16

- (b) the audited annual report and accounts of the Issuer for the financial year ended 31 December 2017 including the information set out at the following pages in particular:

Independent Auditors' Report	Page 8-11
Income Statement	Page 12
Statement of Comprehensive Income	Page 12
Balance Sheet	Page 13
Statement of Changes in Equity	Page 14
Notes to the Accounts	Pages 15-19

- (c) the audited annual report and accounts of the Guarantor for the financial year ended 31 December 2016 including the information set out at the following pages in particular:

Independent Auditor's Report	Pages 28-29
Group Income Statement	Page 30
Statements of Comprehensive Income	Page 30
Balance Sheets	Page 31
Statements of Changes in Equity	Page 32
Cash Flow Statement	Page 34
Notes to the Accounts	Pages 35-63

- (d) the audited annual report and accounts of the Guarantor for the financial year ended 31 December 2017 including the information set out at the following pages in particular:

Independent Auditors' Report	Page 27-31
Group Income Statement	Page 32
Statements of Comprehensive Income	Page 32
Balance Sheets	Page 33
Statements of Changes in Equity	Page 34-35
Cash Flow Statement	Page 36
Notes to the Accounts	Pages 37-65

(e) the unaudited interim report and accounts of the Guarantor for the 6 month period ended 30 June 2018 including the information set out at the following pages in particular:

Interim Management Report	Pages 1-3
Group Income Statement	Page 4
Group Statement of Comprehensive Income	Page 4
Group Balance Sheet	Page 5
Group Statements of Changes in Equity	Page 6
Group Cash Flow Statement	Page 7
Notes to the Condensed Interim Accounts	Pages 8-14

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.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

## CONDITIONS OF THE NOTES

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

The £350,000,000 2.500 per cent. Guaranteed Notes due 2025 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 and forming a single series with the Notes) of NIE Finance plc (the **Issuer**) are constituted by a Trust Deed dated 27 September 2018 (as amended or supplemented from time to time, the **Trust Deed**) made between the Issuer, Northern Ireland Electricity Networks Limited (the **Guarantor**) as guarantor and Citicorp Trustee Company Limited (the **Trustee**, which expression shall include any successor(s)) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**, respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. The Notes also have the benefit of an Agency Agreement dated 27 September 2018 (as amended or supplemented from time to time, the **Agency Agreement**) made between the Issuer, the Guarantor, the Trustee and Citibank, N.A., London Branch as principal paying agent (the **Principal Paying Agent**, and together with any other agents appointed in accordance with such agreement, the **Paying Agents**, which expressions shall include any successor(s)). Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Notes are issued in bearer form, serially numbered, 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.

#### 1.2 Title

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

#### 1.3 Holder Absolute Owner

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

### 2. STATUS OF THE NOTES

The Notes and the Coupons constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and

unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### 3. **GUARANTEE**

#### 3.1 **Guarantee**

The payment of the principal, premium and interest in respect of the Notes and all other monies payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor (the **Guarantee**) in the Trust Deed.

#### 3.2 **Status of the Guarantee**

The obligations of the Guarantor under the Guarantee constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (subject as provided above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

### 4. **NEGATIVE PLEDGES**

#### 4.1 **Negative Pledges**

So long as any of the Notes remains outstanding (as set out in the Trust Deed):

- (a) the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Notes, the Coupons and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
  - (ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (A) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the Noteholders or (B) as is approved by an Extraordinary Resolution (as defined in Schedule 3 of the Trust Deed) of the Noteholders; and
- (b) the Guarantor will ensure that no Relevant Indebtedness of the Guarantor or any of its Subsidiaries (as defined below) or of any other person will be secured by any Security Interest upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Guarantor or any of its Subsidiaries unless the Guarantor, in the case of the creation of the Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:
  - (i) all amounts payable by it under the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or
  - (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided either (A) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the

Noteholders or (B) as is approved by an Extraordinary Resolution of the Noteholders.

## 4.2 Interpretation

For the purposes of these Conditions:

- (a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any bonds, notes, debentures, debenture stock, loan stock, certificate or other securities which are for the time being (or are capable of being) quoted, traded, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, but shall in any event not include Project Finance Indebtedness (as defined in Condition 10.2), and (ii) any guarantee or indemnity in respect of any such indebtedness; and
- (b) **Subsidiary** means a subsidiary within the meaning of Section 1159 of the Companies Act 2006.

## 5. INTEREST

### 5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from, and including, the Issue Date (as defined below) at the rate of 2.500 per cent. per annum (the **Rate of Interest**), payable annually in arrear on 27 October in each year (each an **Interest Payment Date**), commencing 27 October 2019. The first payment (representing a long first coupon for the period from and including 27 September 2018 to but excluding 27 October 2019 and amounting to £27.05 per £1,000 in principal amount of Notes) will be made on 27 October 2019.

### 5.2 Interest Accrual

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

### 5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated 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.

### 5.4 Interpretation

For the purposes of these Conditions, **Issue Date** means 27 September 2018.

## **6. PAYMENTS**

### **6.1 Payments in respect of Notes**

Payments of principal, premium and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the 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 part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **6.2 Method of Payment**

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with a bank in London.

### **6.3 Missing Unmatured Coupons**

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 or, if later, five years after the date on which the Coupon would have become due, but not thereafter).

### **6.4 Payments subject to Applicable Laws**

Payments in respect of principal, premium and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

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

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any further interest or other payment if a Presentation Date is after the due date.

**Presentation Date** means a day which (subject to Condition 9):

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

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

## 6.6 Initial Paying Agents

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

- (a) there will at all times be a Principal Paying Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority and the rules of such stock exchange or other relevant authority require, there will at all times be at least one Paying Agent (which may be the Principal Paying 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
- (c) there will at all times be a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Issuer or the Guarantor is incorporated.

Notice of any variation, termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

## 6.7 FATCA Withholding

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes and the Coupons by or on behalf of the Issuer or the Guarantor will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986, as amended (the **Code**), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code or any regulations thereunder or official interpretations thereof or any law implementing an intergovernmental approach thereto (**FATCA Withholding**). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

## 7. REDEMPTION AND PURCHASE

### 7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 27 October 2025.

### 7.2 Redemption at the Option of the Issuer

The Issuer may, at any time, having given notice to the Noteholders in accordance with this Condition 7.2 (which notice shall be irrevocable), redeem the Notes in whole, but not in part, at the Relevant Early Redemption Price, together with accrued interest up to (but excluding) the date of redemption.

For the purposes of this Condition 7.2, **Relevant Early Redemption Price** means in respect of each Note:

- (i) in relation to any date fixed for redemption which falls in the period up to and including 27 July 2025:
  - (1) the principal amount of such Note; or, if higher;
  - (2) the principal amount of such Note multiplied by the price, expressed as a percentage rounded to three decimal places (0.0005 being rounded upwards), at which the Gross Redemption Yield on the Notes, if they were

to be purchased at such price on the second Business Day in London (as defined in Condition 6.5) prior to the date fixed for redemption and remain outstanding until their original maturity date, would be equal to the sum of (A) the Gross Redemption Yield on such Business Day of the 2.000 per cent. Treasury Stock due 2025 (ISIN: GB00BTHH2R79) or, if such stock is no longer in issue, of such other United Kingdom government stock as the Determination Agent, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers as are selected by the Determination Agent, shall determine to be appropriate (the **Reference Stock**) on the basis of the middle market price of the Reference Stock at 11.00 a.m. (London time) on such Business Day, and (B) a margin of 0.20 per cent., all as determined by an independent investment bank selected by the Issuer with the approval of the Trustee (the **Determination Agent**); or

- (ii) in relation to any date fixed for redemption which falls in the period from but excluding 27 July 2025 to but excluding 27 October 2025, the principal amount of such Note.

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

For the purposes of this Condition 7.2, the **Gross Redemption Yield** means, with respect to the Notes and the Reference Stock, the gross redemption yield on such security calculated by the Determination Agent on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 5, Section One: Price/Yield Formulae "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date" (published on 8 June 1998 and updated on 15 January 2002 and on 16 March 2005 and as further updated or amended from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places)), or if the Determination Agent advises the Issuer and the Trustee that such formula does not reflect generally accepted market practice at the time of redemption, the Gross Redemption Yield calculated by the Determination Agent in accordance with generally accepted market practice at such time.

In the case of a redemption of Notes pursuant to this Condition 7.2, notice will be given to the Noteholders by the Issuer in accordance with Condition 13 not less than 30 nor more than 60 days before the date fixed for redemption. Each such notice will specify the date fixed for redemption.

Upon the expiry of any such notice as is referred to above, the Issuer shall be bound to redeem the Notes to which the notice refers at the Relevant Early Redemption Price together with any interest accrued to (but excluding) such date fixed for redemption.

### **7.3 Redemption for Taxation Reasons**

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

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 25 September 2018, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or (ii) the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,



the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, the Guarantor stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

#### 7.4 Redemption at the Option of the Holders

- (a) (i) If, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below) an independent financial adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders, the following provisions of this Condition 7.4 shall cease to have any further effect in relation to such Restructuring Event.
- (ii) If, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 7.4(a)(i)):
- (A) within the Restructuring Period, either:
- (i) if at the time such Restructuring Event occurs there are Rated Securities (as defined below), a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
- (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) also occurs; and
- (B) an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event will be or is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless the Issuer has previously given notice pursuant to Condition 7.2 or 7.3, the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Put Option**) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) that Note on the Put Date at its principal amount together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Guarantor (or any Subsidiary of the Guarantor and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/BBB-/Baa3 or their

respective equivalents for the time being, or better) prior to any Negative Certification being issued.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event will be or is materially prejudicial to the interests of the Noteholders shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer, the Guarantor and the Noteholders. For the purposes of this Condition 7.4, an **independent financial adviser** means a financial adviser appointed by the Issuer or the Guarantor and approved by the Trustee (such approval not to be unreasonably withheld or delayed) or, if neither the Issuer nor the Guarantor shall have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Issuer and the Guarantor.

- (b) Promptly upon the Issuer or the Guarantor becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after becoming so aware, the Issuer or, as the case may be, the Guarantor shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Notes then outstanding 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.
- (c) To exercise the Put Option, if the relevant Note is held outside Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**), the Noteholder must deliver such Note to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 6.5) in London and in the place of such specified office falling within the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Notice**) and in which the holder may specify a bank account complying with the requirements of Condition 6 to which payment is to be made under this Condition 7.4. All unmaturing Coupons shall be dealt with as per the provisions of Condition 6.3. The Issuer shall redeem or, at its option, purchase (or procure the purchase of) the relevant Note on the date (the **Put Date**) being the fifteenth day after the date of expiry of the Put Period, unless previously redeemed or purchased and cancelled. 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 bank account 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 Conditions 1, 9, 10, 11, 12 and 15 receipts issued pursuant to this Condition 7.4 shall be treated as if they were Notes.

If the relevant Note is held through Euroclear or Clearstream, Luxembourg, to exercise the Put Option the Noteholder must, within the Put Period, give notice to the Principal 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 such Noteholder's instruction by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear or Clearstream, Luxembourg, as applicable.

- (d) For the purposes of these Conditions:
- (i) **Authorised Distribution Area** means the authorised distribution area of the Guarantor as provided in the Distribution Licence;
  - (ii) **Authorised Transmission Area** means the authorised transmission area of the Guarantor as provided in the Transmission Licence;
  - (iii) **Distribution Licence** means the licence granted to the Guarantor under the terms of the Electricity Order and having effect under the Internal Markets Regulations as a licence to participate in the distribution of electricity for the purpose of giving a supply to any premises or enabling a supply to be so given in the Authorised Distribution Area in effect on the Issue Date;
  - (iv) **Distribution System** means the system comprising of electric lines owned and operated by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Distribution Licence within the Authorised Distribution Area (excepting lines forming part of the Transmission System or any interconnector), and any other electric lines which the Northern Ireland Authority for Utility Regulation (**NIAUR**) (or any successor) specifies as forming part of the distribution system owned or operated by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Distribution Licence and includes any electrical plant and meters of the Guarantor or any other member of the Group which are used in connection with the distribution of electricity pursuant to the terms of the Distribution Licence;
  - (v) **Electricity Order** means the Electricity (Northern Ireland) Order 1992 (as amended);
  - (vi) **Excluded Subsidiary** means any Subsidiary of the Guarantor (other than a T&D Subsidiary):
    - (i) in respect of which neither the Guarantor nor any Subsidiary of the Guarantor (other than another Excluded Subsidiary) has undertaken any legal obligation to give any form of financial support other than in respect of any statutory obligation and the Subsidiaries of which are all Excluded Subsidiaries; and
    - (ii) which has been designated as such by the Guarantor by written notice to the Trustee, provided that the Guarantor may give written notice to the Trustee at any time that any Excluded Subsidiary is no longer an Excluded Subsidiary, whereupon it shall cease to be an Excluded Subsidiary;
  - (vii) **Group** means the Guarantor and its Subsidiary Undertakings and **member of the Group** shall be construed accordingly;
  - (viii) **Group's Distribution Business** means the business carried on by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Distribution Licence comprising, or ancillary to the transport (whether for its own account or that of third parties) of electricity through the Distribution System (including any business in providing connections to the Distribution System and business in providing the market registration services and/or the market data services), but shall not include any other business of the Guarantor or any affiliate or related undertaking of the Guarantor in the provision of other services to or on behalf of any one or more persons;

- (ix) **Group's Transmission Business** means the business carried on by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Transmission Licence comprising the development, construction, ownership and maintenance of the Transmission System (to the extent authorised by the Transmission Licence, including making the Transmission System available for use), and in any other activity ancillary to the ownership of the Transmission System, but shall not include any other business of the Guarantor or any affiliate or related undertaking of the Guarantor;
- (x) **Internal Markets Regulations** means The Gas and Electricity (Internal Markets) Regulations (Northern Ireland) 2011;
- (xi) A **Negative Rating Event** shall be deemed to have occurred if (A) the Issuer does not either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more from a Rating Agency or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/BBB-/Baa3, or their respective equivalents for the time being) from a Rating Agency;
- (xii) A **Put Event** occurs on the date of the last to occur of (aa) a Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification;
- (xiii) **Rating Agency** means S&P Global Ratings Europe Limited or any of its subsidiaries or their successors or Fitch Ratings Limited or any of its subsidiaries or their successors or Moody's Investors Service Limited 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 with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed);
- (xiv) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Guarantor (or of any Subsidiary of the Guarantor and which is guaranteed on an unsecured and unsubordinated basis by the Guarantor) having an initial maturity of five years or more which is rated by a Rating Agency;
- (xv) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from an investment grade rating (BBB-/BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category (for illustration, Ba1 to Ba2 being one full rating category);
- (xvi) **Restructuring Event** means the occurrence of any one or more of the following events:
  - (1) (aa) NIAUR (or any successor) giving the Guarantor written notice of revocation of the Distribution Licence or Transmission Licence or NIAUR (or any successor) giving the Guarantor or a Subsidiary of the Guarantor (not being an Excluded Subsidiary) written notice of revocation of a

Successor Licence (as defined below), provided that the giving of not less than 25 years' notice pursuant to paragraph 2 of Part I of the Distribution Licence or of the Transmission Licence (or pursuant to any similar provision of a Successor Licence) shall be deemed not to constitute the revocation of the Distribution Licence, Transmission Licence or Successor Licence, as applicable, or (bb) the Guarantor agreeing in writing with NIAUR (or any successor) to any revocation or surrender of the Distribution Licence or the Transmission Licence, or the Guarantor or a Subsidiary of the Guarantor (not being an Excluded Subsidiary) agreeing with NIAUR (or any successor) to any revocation or surrender of any Successor Licence, or (cc) any legislation (whether primary or subordinate) being enacted terminating or revoking the Distribution Licence or the Transmission Licence or any Successor Licence, except in any such case referred to in (aa), (bb) or (cc) above in circumstances where a licence or licences in relation to the Group's Transmission Business and/or, as the case may be, the Group's Distribution Business on substantially no less favourable terms (each a **Successor Licence**) is or are granted to the Guarantor and/or a Subsidiary of the Guarantor (not being an Excluded Subsidiary) (the **Relevant Transferee**) and in the case of such Relevant Transferee at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes the principal debtor under the Notes in accordance with Condition 14;

- (2) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of the Distribution Licence or Transmission Licence on or after 25 September 2018 unless two Directors of the Guarantor have certified in good faith to the Trustee that the modified terms and conditions do not have a materially adverse effect on the financial condition of the Guarantor; and
- (3) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Department for the Economy (**DfE**) or NIAUR under Articles 12 and 13 of The Energy (Northern Ireland) Order 2003 as in force on 25 September 2018 unless two Directors of the Guarantor have certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Guarantor;

(xvii) **Restructuring Period** means:

- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from (and including) the day on which that Restructuring Event occurs; or
- (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from (and including) the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date on which the Issuer shall seek to obtain a rating pursuant to Condition 7.4(d)(xi) prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (bb) the date on which a Negative Certification shall have been given to the Guarantor in respect of that Restructuring Event;

- (xviii) **Subsidiary Undertaking** shall have the meaning given to it by Section 1162 of the Companies Act 2006, (but shall exclude any undertaking (as defined in Section 1161 of the Companies Act 2006)) whose accounts are not included in the then latest published audited consolidated accounts of the Guarantor or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date);
  - (xix) **T&D Subsidiary** means any Subsidiary of the Guarantor which carries on all or part of the Group's Distribution Business or the Group's Transmission Business;
  - (xx) **Transmission Licence** means the participate in transmission licence granted to the Guarantor under the terms of the Electricity Order to transmit electricity for the purpose of giving a supply to any premises or enabling a supply to be so given in the Authorised Transmission Area in effect on the Issue Date;
  - (xxi) **Transmission System** means the system of electric lines owned by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Transmission Licence and comprising high voltage lines and electrical plant and meters used for conveying electricity from a generating station to a substation, from one generating station to another, and from one substation to another within the Authorised Transmission Area (including such part of the electric lines and electrical plant and meters used for conveying electricity only directly to or from a substation or converter station within Northern Ireland directly to or from a substation or converter station within the Republic of Ireland as is owned by the Guarantor (the **North/South Circuits**)) and any other electric lines which NIAUR (or any successor) may specify as forming part of the transmission system owned by the Guarantor or any other member of the Group from time to time pursuant to the terms of the Transmission Licence but shall not include (A) any electric line which NIAUR may approve as being part of the Distribution System; (B) any electric lines and electrical plant and meters used for conveying electricity only directly to or from a substation or converter station within the Republic of Ireland into or out of the Republic of Ireland but excluding the North/South Circuits; or (C) any electric lines and electrical plant and meters used for conveying electricity only directly to or from a substation or converter station within Northern Ireland into or out of Northern Ireland but excluding the North/South Circuits; and
  - (xxii) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least the investment grade provided in this Condition 7.4 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
- (e) The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred.

## 7.5 Purchases

The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries (as defined above) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

## 7.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be held, reissued or resold.

## 7.7 Notices Final

Upon the expiry of any notice as is referred to in paragraph 7.2, 7.3 or 7.4 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph (in the case of paragraph 7.4 above, save as otherwise provided therein).

## 8. TAXATION

### 8.1 Payment without Withholding

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

- (a) presented for payment by or on behalf of, a holder who is liable for Taxes in respect of such Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 6).

### 8.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and

- (b) **Relevant Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

### 8.3 Additional Amounts

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

## 9. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and/or premium) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 6.

## 10. EVENTS OF DEFAULT

### 10.1 Events of Default

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

- (a) if default is made for a period of 7 days or more in the payment of any principal, premium or the purchase price due in respect of the Notes or any of them pursuant to Condition 7 or for a period of 21 days or more in the payment of any interest due in respect of the Notes or any of them; or
- (b) if the Issuer or the Guarantor fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer and the Guarantor in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any other indebtedness for borrowed money of the Issuer, the Guarantor or any Principal Subsidiary (as defined below) becomes due and repayable prior to its stated maturity by reason of an event of default (howsoever described) or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer, the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer, the Guarantor or any Principal Subsidiary for any indebtedness



for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money (where denominated in another currency, translated into sterling as determined by the Trustee) in respect of which any one or more of the events mentioned above in this subparagraph (c) has occurred equals or exceeds £40,000,000 or its equivalent in other currencies (as determined by the Trustee) and, for the purposes of this subparagraph (c), indebtedness for borrowed money (as defined below) shall exclude Project Finance Indebtedness (as defined below); or

- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, or the Guarantor, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Guarantor or any of its other Subsidiaries (other than an Excluded Subsidiary) or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (f) if the Issuer, the Guarantor or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement:
  - (i) not involving or arising out of the insolvency of the Issuer, the Guarantor or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group (other than an Excluded Subsidiary) or to a transferee which is, or immediately upon such transfer becomes, a Principal Subsidiary; or
  - (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer, the Guarantor or a Principal Subsidiary on an arm's length basis; or
  - (iii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders,

provided that if the Guarantor shall cease to hold or shall transfer the Distribution Licence or the Transmission Licence (or any Successor Licence) (other than where the Distribution Licence or the Transmission Licence or the Successor Licence, as applicable, is revoked, terminated or surrendered in the circumstances envisaged by paragraph (1) (aa), (bb) or (cc) of the definition of Restructuring Event in Condition 7.4(d)(xvi) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to paragraph (1) of such definition) it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) shall apply) unless the transferee assumes all the Guarantor's obligations under the Trust Deed as primary obligor or gives a guarantee in a form and substance acceptable to the Trustee in respect of the obligations of the Guarantor under the Trust Deed; or

- (g) if the Issuer, the Guarantor or a Principal Subsidiary is, or is deemed for the purposes of any law to be, unable to pay its debts (within the meaning of Article 103(1) or Article 103(2) of The Insolvency (Northern Ireland) Order 1989) but, for the purposes of this paragraph (g), Article 103(1)(a) of The Insolvency (Northern Ireland) Order 1989 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as NIAUR (or any successor) may from time to time determine by notice in writing to DfE (or any successor) and the Guarantor; or
- (h) if the Issuer, the Guarantor or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or a moratorium is declared in respect of any of its indebtedness; or
- (i) if a receiver, administrative receiver, administrator, liquidator or other similar official shall be appointed in relation to the Issuer, the Guarantor or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit); or
- (j) if the Guarantee ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect; or
- (k) if the Issuer ceases to be a subsidiary wholly-owned and controlled, directly or indirectly, by the Guarantor.

None of the Issuer, the Guarantor or any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of paragraph (g) above if any such demand as is mentioned in Article 103 of The Insolvency (Northern Ireland) Order 1989 is being contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as applicable, with recourse to all appropriate measures and procedures.

## 10.2 Interpretation

For the purposes of these Conditions:

- (a) **indebtedness for borrowed money** means any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit, or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash;
- (b) **Principal Subsidiary** at any time shall mean a Subsidiary of the Guarantor (not being an Excluded Subsidiary or any other Subsidiary of the Guarantor whose only indebtedness for borrowed money is Project Finance Indebtedness):
  - (A) whose (i) net profits before tax or (ii) gross assets represent 10 per cent. or more of the consolidated net profits before tax of the Group or consolidated gross assets of the Group respectively, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or

- (B) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this subparagraph (B) (but without prejudice to the provisions of subparagraph (A) above) upon publication of its next audited financial statements;
- (c) **Project Finance Indebtedness** means any indebtedness for borrowed money to finance the ownership, design, acquisition, development and/or operation of an asset:
- (i) which is incurred by an Excluded Subsidiary; or
  - (ii) in respect of which the person or persons to whom any such indebtedness for borrowed money is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group (other than an Excluded Subsidiary) for the repayment thereof other than:
    - (1) recourse to such borrower for amounts limited to the cash flow or net cash flow (other than historic cash flow or historic net cash flow) from such asset; and/or
    - (2) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such indebtedness for borrowed money in an enforcement of any encumbrance given by such borrower over such asset or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
    - (3) recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available,

all as more fully defined in the Trust Deed.

### 10.3 Reports

A report by any two Directors of the Guarantor, whether or not addressed to the Trustee, that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

## **11. ENFORCEMENT**

### **11.1 Enforcement by the Trustee**

The Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons or otherwise, but it shall not be bound to take any such proceedings or other steps or action unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

### **11.2 Enforcement by the Noteholders**

No Noteholder or Couponholder shall be entitled to (i) take any steps or action against the Issuer or the Guarantor to enforce the performance of any provisions of the Trust Deed, the Notes or the Coupons or (ii) take any of the proceedings (including lodging an appeal in any proceedings) in respect of or concerning the Issuer or the Guarantor, in each case unless the Trustee, having become bound so to take any such action, steps or proceedings, fails so to do within a reasonable period and the failure shall be continuing.

## **12. REPLACEMENT OF NOTES AND COUPONS**

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

## **13. NOTICES**

### **13.1 Notices to the Noteholders**

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. 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 the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

### **13.2 Notices from the Noteholders**

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

## **14. SUBSTITUTION**

The Trustee may, without the consent of the Noteholders or Couponholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this

Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of the Guarantor or any of its other Subsidiaries, subject to:

- (a) except in the case of the substitution of the Guarantor, the Notes being unconditionally and irrevocably guaranteed by the Guarantor;
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

## **15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

### **15.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed (as more particularly described in the Trust Deed), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by on or behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in principal amount of the Notes for the time being outstanding shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all Noteholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

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

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

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

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but

shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

#### **15.4 Notification to the Noteholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

### **16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR**

#### **16.1 Indemnification of the Trustee**

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

#### **16.2 Trustee Contracting with the Issuer and the Guarantor**

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

### **17. FURTHER ISSUES**

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

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing Law**

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

### **18.2 Jurisdiction of English Courts**

- (a) Subject to Condition 18.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes or the Coupons (a **Dispute**) and each of the Issuer and the Guarantor, in relation to any Dispute, submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition, each of the Issuer and the Guarantor waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Trustee, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction and (ii) concurrent proceedings in any number of jurisdictions.

### **18.3 Appointment of Process Agent**

Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter's registered office for the time being as its agent for service of process in England in relation to any Dispute and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

## **19. RIGHTS OF THIRD PARTIES**

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

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

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

### 1. Exchange

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note on or after a date which is expected to be 6 November 2018 upon certification as to non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

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

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

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

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

### 2. Payments

On and after 6 November 2018, 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 a 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 such Global Note to the order of the Principal Paying



Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. 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. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### **3. Interest Calculation**

For so long as all of the Notes are represented by one or both of the Global Notes, interest payable to the bearer of the relevant Global Note(s) will be calculated by applying the Rate of Interest to the outstanding principal amount of the Notes evidenced by such Global Note(s) 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 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, 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 to the 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 UK Listing Authority have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the 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 Principal Paying 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 10 and Condition 7.4) 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 and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

## **6. Prescription**

Claims against the Issuer and the Guarantor in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal and/or premium) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

## **7. Cancellation**

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by instruction by or on behalf of the Principal Paying Agent to Euroclear and Clearstream, Luxembourg to make appropriate entries in their records in respect of all Notes which are cancelled.

## **8. Put Option**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 7.4 may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instructions by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised 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.

## **9. Euroclear and Clearstream, Luxembourg**

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee. 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

## **10. Eurosystem 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 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 will be applied by the Issuer for its general corporate purposes.

## DESCRIPTION OF THE ISSUER

### Information about the Issuer

The legal and commercial name of the Issuer is NIE Finance plc.

The Issuer is a public limited company registered in Northern Ireland with registered number NI607246 and was incorporated on 28 April 2011. The Issuer operates under the Companies Act 2006.

The registered office of the Issuer is 120 Malone Road, Belfast, BT9 5HT and its telephone number is +44 (0) 2890 661100.

The Issuer is also the issuer of £400,000,000 6.375 per cent. bonds due 2026 (the **2011 Bonds**) which were issued on 2 June 2011. The 2011 Bonds are currently outstanding and are scheduled to mature on 2 June 2026.

### Recent Events

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

### Business Overview

The Issuer is a finance vehicle. The Issuer was incorporated on 28 April 2011 and, on 6 May 2011, was issued with a certificate under Section 761 of the Companies Act 2006 entitling it to do business and exercise any borrowing powers.

The principal activity of the Issuer is to raise finance on behalf of the Guarantor.

### Organisational Structure

The Issuer is a subsidiary of the Guarantor; see group structure chart contained in the business description of the Guarantor on page 53 of this Offering Circular.

### The Issuer has no subsidiaries.

The Issuer is dependant on the Guarantor to meet its cashflow requirements. The sole function of the Issuer is to raise finance for the Guarantor, and funds raised by it are on-lent to the Guarantor. The Issuer is reliant on the Guarantor, *inter alia*, to service the interest and principal repayments on the finance it raises.

### Administrative, Management and Supervisory Bodies

The Directors of the Issuer (each of whom is an executive director) and their respective roles as directors of the Issuer are as follows:

<i>Name</i>	<i>Role as Director of the Issuer</i>
Paul Stapleton	Executive Director
Peter Ewing	Executive Director
Edward Byrne	Executive Director

There are no potential conflicts of interest between the Directors' duties to the Issuer and their private interests or their other duties.

The Company Secretary of the Issuer is Ruth Conacher.

The business address of each of the above is 120 Malone Road, Belfast, BT9 5HT.

**Major Shareholders**

The issued share capital of the Issuer is £50,000 comprising 50,000 ordinary shares of £1 each. All of the issued shares are fully paid up and are held by the Guarantor.

There are no arrangements in place the operation of which may result in a change of control of the Issuer.

## DESCRIPTION OF THE GUARANTOR

### Information about the Guarantor

The legal name of the Guarantor is Northern Ireland Electricity Networks Limited. Prior to 18 September 2015, the Guarantor was named Northern Ireland Electricity Limited.

The Guarantor is a private limited company registered in Northern Ireland with registered number NI026041 and was originally incorporated on 25 October 1991 as a public limited company and re-registered as a private limited company on 26 November 2010. The Guarantor operates under the Companies Act 2006.

The registered office of the Guarantor is 120 Malone Road, Belfast, BT9 5HT. The telephone number of the Guarantor is +44 (0) 2890 661100.

### Recent Events

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

### Background

The Guarantor was incorporated on 25 October, 1991 as a public limited company and it was privatised in 1993 with a public flotation on the London Stock Exchange. The Guarantor historically primarily carried on three regulated businesses in Northern Ireland: power procurement, the transmission (including transmission system operation) and distribution of electricity and the supply of electricity. The Guarantor and its subsidiary undertakings were also involved in other, unregulated businesses, including electrical appliance retailing and the provision of electrical engineering services.

In a capital re-organisation in 1998, a new holding company, Viridian Group PLC acquired all the issued share capital of the Guarantor. The aim of the re-organisation was to separate the regulated and unregulated business activities, and the Guarantor's significant unregulated businesses were transferred to a subsidiary company of Viridian Group PLC, leaving the Guarantor to concentrate on its regulated businesses.

In 2000 the transmission system operation function, which was part of the Guarantor's transmission and distribution business, was transferred to a separate company owned by the Guarantor, SONI. SONI in due course was separately licensed, and in March 2009 was sold to EirGrid PLC (**EirGrid**), the independent transmission system operator in the Republic of Ireland. In 2007, as part of the arrangements for the SEM, the power procurement and supply businesses of the Guarantor were transferred to a separately licensed subsidiary of Viridian Group Limited (formerly Viridian Group PLC), Power NI Energy Limited (formerly NIE Energy Limited), leaving the Guarantor with the transmission and distribution businesses.

In December 2010, the Guarantor was sold by Viridian Group Limited to ESBNI Limited, a wholly-owned subsidiary of ESB, the vertically integrated energy group based in the Republic of Ireland (as further discussed in section 10 below). The Guarantor is an independent business within ESB with its own Board of Directors, management and staff.

### Business Overview

The Guarantor is the owner of the electricity transmission and distribution networks in Northern Ireland and is the distribution network operator, serving 0.9 million customers. SONI is the electricity transmission system operator and is responsible for transmission system planning and operation. There are licence based arrangements in place (known as the **Transmission Interface Arrangements** or **TIA**) between the Guarantor, as the transmission and distribution owner, and SONI, as the transmission system operator.

The Guarantor's principal activities are:

- constructing and maintaining the electricity transmission and distribution networks in Northern Ireland and operating the distribution network;
- connecting demand and renewable generation customers to the transmission and distribution networks; and
- providing electricity meters in Northern Ireland and providing metering data to suppliers and market operators to enable wholesale and retail market settlement.

In the case of transmission, the Guarantor has responsibility for the development, construction and maintenance of the transmission system. In the case of distribution, the Guarantor has responsibility for the planning, development, construction, operation and maintenance of the distribution system.

The transmission and distribution networks comprise a number of interconnected networks of overhead lines and underground cables which are used for the transfer of electricity to approximately 870,000 customers via a number of substations. Voltages at or above 110kV are used in the transmission network. The distribution network operates at voltages of 33kV and below. There are approximately 2,200km of the transmission system; 47,000km of the distribution system; and over 300 major substations, including serving large wind farm sites.

The Guarantor does not buy or sell electricity, or send any bills to electricity consumers (apart from charges for new connections to the network). The Guarantor's transmission and distribution business derives revenue principally through charges for use of the distribution system, PSO charges (being the Public Service Obligation, a charge levied on all units of electricity sold in Northern Ireland) levied on electricity suppliers, and charges for the transmission services levied on SONI. In addition, the Guarantor's Network Connections Business provides connections to the network for customers requiring new electricity supply (demand connections) and those seeking to generate electricity (generation connections).

The Guarantor also owns and maintains (as far as the Republic of Ireland border) transmission circuits interconnecting the Northern Ireland and the Republic of Ireland transmission systems.

The freehold of certain power station sites in Northern Ireland is held by the Guarantor in a quasi-trustee role regulated under the terms of the Guarantor's Electricity Distribution Licence and known as the "Land Bank Business". The Land Bank Business of the Guarantor manages the freehold of these sites under direction from NIAUR for the benefit of electricity customers.

## ***Regulation***

### **1. Legislation**

The electricity industry in Northern Ireland is governed principally by the Electricity (Northern Ireland) Order 1992, as amended (the **1992 Order**). It is also subject to EU laws relating to the environment and competition. The domestic legislation and the licensing regime changed with the introduction of the SEM for the island of Ireland in 2007 and the full implementation of EC Directive 2009/72/EC, which gave effect to the EU's unbundling requirements. The Gas and Electricity (Internal Markets) Regulations (Northern Ireland) 2011 implements EC Directive 2009/72/EC in Northern Ireland.

The 1992 Order, as amended, requires a licence to be granted (or an exemption to be utilised) for electricity generation, electricity supply, electricity transmission, electricity distribution and acting as SEM operator. The legislation provides for licences to contain conditions relating to the activities authorised by the relevant licences or such other conditions as may be expedient.

## 2. Regulatory Regime

NIAUR and DfE are the principal entities involved in the regulation and oversight of the electricity market in Northern Ireland. The principal objective of both NIAUR and DfE in carrying out their functions in relation to electricity is set out under Article 12 of the Energy (Northern Ireland) Order 2003 and is to protect the interests of consumers of electricity, wherever appropriate, by promoting effective competition between those engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity.

Each of NIAUR and DfE has a duty to carry out its functions in the manner which it considers is best calculated to further this principal objective, having regard to a number of factors, including the need to secure that all reasonable demands in Northern Ireland and the Republic of Ireland for electricity are met and the need to secure that licensees are able to finance their authorised activities. In performing that duty NIAUR and DfE are required to have regard to the need to protect the interests of individuals who are disabled, chronically sick or of pensionable age or have low incomes or residing in rural areas. They must also have regard to the effect of the industry's activities on the environment and their role includes promoting energy efficiency. Each is given specific powers, duties and functions under the legislation.

The Secretary of State and the CMA also have a role in relation to licence modifications (see section 3 below).

Additionally in relation to the SEM, Article 6(1) of the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 (the **SEM Order**) established a joint committee known as the Single Electricity Market Committee (**SEM Committee**), which combines members of both regulators in the SEM, being NIAUR and the CRU. The role of the SEM Committee is to take any decision as to the exercise of a function of either regulator in relation to a "SEM matter". A matter is a SEM matter if the SEM Committee determines that the exercise of a relevant function in relation to that matter materially affects, or is likely to materially affect, the SEM.

The SEM Committee's principal objective is set out in Article 9 of the SEM Order and is to protect the interests of electricity consumers in Northern Ireland and the Republic of Ireland, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the sale or purchase of electricity through the SEM. The SEM Committee must carry out its functions in the manner which it considers is best calculated to further its principal objective having regard to a number of factors, including the need to meet electricity demand, the need to secure that licensees are able to finance their authorised activities, the need to secure that the functions of the relevant bodies are exercised in a co-ordinated manner, the need to ensure transparent pricing in the SEM, and the need to avoid unfair discrimination between consumers in Northern Ireland and consumers in the Republic of Ireland. The SEM Committee must also carry out its functions in the manner which it considers is best calculated to promote efficiency, secure a diverse, viable and environmentally sustainable long-term energy supply in Northern Ireland and Ireland and to promote research and development whilst having regard to the effect of the industry's activities on the environment and the need to promote the use of renewable energy.

## 3. Licences

The 1992 Order makes it an offence to carry out certain activities (including electricity transmission and distribution) without a licence or an exemption. Licences may be granted by NIAUR, (or alternatively for an exemption to be utilised) for supply, generation, participation in transmission, distribution and for acting as SEM operator.

The Guarantor holds a Participate in Transmission Licence and an Electricity Distribution Licence (together referred to as the **Licences** and each a **Licence**).

Under the terms of the Licences, the Guarantor is also required to have in place and comply with a "Compliance Plan". The Compliance Plan sets out the practices, procedures, systems and rules of conduct which the Guarantor has adopted, or intends to adopt, to ensure compliance with the independence



requirements of the Licences. The Compliance Plan, including any amendments thereto, must be approved by NIAUR.

SONI holds a licence to participate in the transmission of electricity which authorises SONI to plan and operate the transmission system. Other than Moyle Interconnector Limited (which holds a licence in respect of the Moyle Interconnector), SONI and the Guarantor currently hold the only two participate in transmission licences in Northern Ireland.

Under Articles 14 and 14A of the 1992 Order, NIAUR has formal powers to modify the Licences. Before making any licence modification, NIAUR is required to give notice and must consider any representations made in respect of the proposed modification.

An appeal can be made to the CMA against a licence modification made by NIAUR. An appeal may be brought by any person with 'standing' under Article 14B(2) of the 1992 Order, which includes the holder of the licence that has been modified. The permission of the CMA is required before bringing an appeal although the CMA may refuse permission in limited circumstances, being those lists in Article 14B(4) of the 1992 Order. If permission is granted, the CMA will determine the appeal and may allow the appeal only to the extent that it is satisfied that the decision appealed against was wrong on one or more of the grounds specified in Article 14D(4) of the 1992 Order. These include where NIAUR failed to properly have regard to, or to give appropriate weight to, anything which it was required to have regard to when carrying out its principal objective and performing its duties, the decision was based on an error of fact, the modifications failed to achieve the stated effect, or the decision was wrong in law. Should the CMA allow an appeal, the CMA will either (i) quash NIAUR's decision to amend the licence (to the extent the appeal is allowed), (ii) remit the matter back to NIAUR for determination in accordance with any directions given by the CMA, or (iii) in the case of price control decisions, the CMA may substitute its own decisions for that of NIAUR. Licence conditions may also be amended by order under statutory provisions of the Enterprise Act 2002 by either the CMA or the Secretary of State.

Pursuant to its terms, the Guarantor's Licence remains in force unless revoked by NIAUR with at least 25 years' notice and otherwise may only be revoked by NIAUR in a limited number of circumstances, including where the Guarantor consents to revocation, where specified insolvency procedures are initiated in respect of the Guarantor or its assets, or where the Guarantor fails to pay any financial penalty imposed in respect of a licence breach or specified statutory requirements within three months, or for non-compliance with an enforcement order after three months.

#### *Participate in Transmission Licence Conditions*

The Participate in Transmission Licence sets out the requirements for ensuring that the business of the licensee is ring-fenced (full managerial and operational independence) from associated businesses along with a number of other requirements including requirements to comply with specified industry codes and agreements, to act at all times in a manner calculated to secure that it has sufficient resources (including management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities) to carry on its business and to prepare, for NIAUR's approval, statements of the basis of charges to SONI for transmission services and transmission connections.

#### *Electricity Distribution Licence Conditions*

The Electricity Distribution Licence sets out the requirements for ensuring that the business of the licensee is ring-fenced (full managerial and operational independence) from associated businesses along with a number of other requirements including requirements to comply with specified industry codes and agreements, to act in a manner calculated to secure that it has sufficient resources (including management and financial resources, personnel, fixed and moveable assets, rights, licences, consents and facilities) to carry on its business and to prepare, for NIAUR's approval, statements of the basis of charges for use of the distribution system and for charges associated with connection to the distribution system.

#### 4. Price Control

The Guarantor is subject to a price control, defined in a formula set out in the Guarantor's Licences, which limits the revenue it may earn and the prices it may charge. The principles of price regulation employed in the licence conditions reflect the general duties of NIAUR and DfE under the relevant legislation. These include having regard to the need to secure that the Guarantor is able to finance its authorised activities.

If the amount of revenue recovered in any one year exceeds or falls short of the amount allowed by the price control formula, a correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as appropriate. A surplus is referred to as an over-recovery and a deficit as an under-recovery.

The electricity transmission and distribution price control was reset with effect from 1 October 2017 and is scheduled to run to 31 March 2024 (referred to as Regulatory Period 6 (**RP6**)).

The RP6 Final Determination was published by NIAUR in June 2017 and the licence modifications, which implement the RP6 Final Determination were published in August 2017 by NIAUR. The key aspects of the RP6 price control are as follows:

- The RP6 price control sets ex-ante allowances of £657 million for capital investment and £426 million in respect of operating costs (2015/16 prices) for the period from 1 October 2017 to 31 March 2024.
- Additional allowances may be allowed in specified circumstances, for example in respect of some major transmission projects, which will be considered by NIAUR on a case-by-case basis, for example, the North-South Interconnector (as further discussed in section 7).
- The RP6 baseline rate of return of 3.18% plus inflation (weighted average cost of capital based on pre-tax cost of debt and post-tax cost of equity) will be adjusted to reflect the cost of new debt raised in RP6. This mechanism is new for RP6, departing from the former approach of setting an ex-ante allowance, and will align the cost of debt component of the return more closely with prevailing market conditions at the time of any drawdown of new debt.
- Various outputs and key performance indicators are included, including:
  - o new reliability incentives concerning customer minutes lost, which incentivises the Guarantor to reduce the amount of time customers suffer from supply interruptions;
  - o new substitution mechanism concerning capital investment, to ensure any deferral of planned projects is efficient;
  - o continuous consumer engagement;
  - o guaranteed standards of service;
  - o new connections metrics; and
  - o new monitoring of real price effects performance.

The Guarantor's connections business is largely outside the scope of the RP6 price control regime.

#### 5. EC Directive 2009/72/EC

EC Directive 2009/72/EC is part of a package of EU legislation on European electricity and gas markets that came into force on 3 September 2009, and aims to liberalise further the European energy markets (the **Third**

**Package).** The Gas and Electricity (Internal Markets) Regulations (Northern Ireland) 2011 (**IME3 Regulations**) implements the Third Package in Northern Ireland.

EC Directive 2009/72/EC requires that transmission system operators be certified as being in compliance with the full ownership unbundling requirements or one of the alternative unbundling models set out. In 2013, the European Commission certified SONI as the transmission system operator for Northern Ireland on the basis of Article 9(9) of EC Directive 2009/72/EC.

Following the European Commission's decision, the Guarantor's transmission licence obligations were updated such that the Guarantor develops, constructs, owns and maintains the transmission system and SONI's licence obligations were updated such that SONI plans and operates the transmission system.

## **6. Renewable Energy**

EC Directive 2009/28/EC (the **EU Renewable Energy Directive**) establishes an overall policy for the production and promotion of energy from renewable sources in the EU. It requires the EU to fulfil at least 20% of its total energy needs with renewables by 2020 - to be achieved through the attainment of individual national targets. Northern Ireland Assembly has set a target of 40% of energy from renewable sources by 2020. The Guarantor has now connected some 1550 MW of renewable generation to the network such that Northern Ireland is on track to achieve the 40% target.

## **7. Interconnection**

The Guarantor, working jointly with SONI and ESB Networks DAC, is progressing with the development of the 400kV North-South interconnector to further strengthen the interconnection of the electricity networks of Northern Ireland and the Republic of Ireland. This will see the construction of a new 400/275kV substation near Moy, Co. Tyrone and approximately 34km of new 400kV overhead transmission line from the new substation to a crossing point on the border between Co. Armagh and Co. Monaghan in the Republic of Ireland. In January 2018, the Department of Infrastructure granted planning approval for the works to be completed in Northern Ireland following a recommendation from the Public Appeals Commission (**PAC**). The PAC recommendation followed a two part public inquiry which concluded in November 2017. In June 2018 an opposition group was granted leave to apply for a judicial review into the decision to grant planning approval for the project, with the review due to be heard on 21 September 2018.

## **8. Customer Connections**

In June 2016, a competitive market was established, in respect of new connections to the distribution system with capacities of 5MW and greater. The competitive market allows ICPs to undertake elements of the connection works that are open to competition. Two out of six relevant connection offers over 5MW issued and accepted since that date will have elements of the connection works open to competition delivered by an ICP. As from 28 March 2018 the competitive market has applied to all new connections to the distribution system including connections under 5MW. As of the date of this Offering Circular, a small proportion (less than 2 per cent.) of offers under 5MW issued and accepted will have elements of the connection works delivered by an ICP, albeit a number of connection offers issued since that date remain open for acceptance.

The Guarantor's business has restructured in preparation for the competitive market in distribution connections. The Guarantor's connections business was restructured to include headcount reduction, process and technology improvements and increased customer and stakeholder engagement.

## **9. Capital Structure**

The Guarantor was the issuer of Northern Ireland Electricity plc's £175,000,000 6.875 per cent. bonds due 2018 (the **1998 Bonds**) which were issued on 18 March 1998. The 1998 Bonds matured on 18 September 2018.

## 10. Organisational Structure

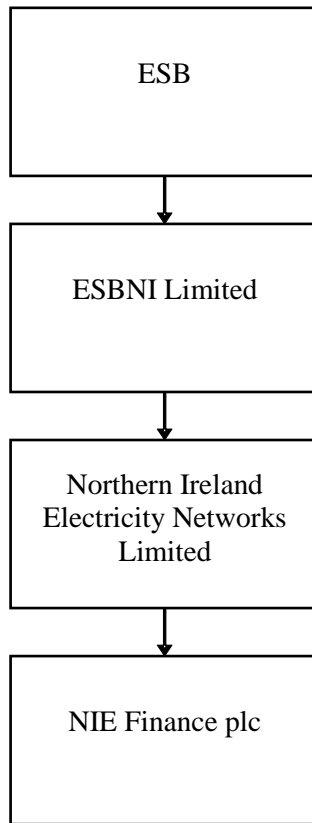
The Guarantor is a direct subsidiary of ESBNI Limited, which is a direct subsidiary of ESB. ESB is a statutory corporation in the Republic of Ireland established in 1927 under the Electricity (Supply) Act 1927 and it operates under the Electricity (Supply) Acts 1927 to 2014 of Ireland. It is majority owned by the Government of Ireland through the Minister for Public Expenditure and Reform of Ireland (who holds 85 per cent. of its issued capital stock) and the Minister for Communications, Climate Action and Environment of Ireland (who holds 10 per cent. of its issued capital stock). The remaining 5 per cent. of the issued capital stock of ESB is held by the trustees of an Employee Share Ownership Plan. ESB's long term ratings are currently A3 (Moody's) and A- (S&P), both with stable outlook.

ESB is focussed on meeting customers' energy needs across its core markets of the Republic of Ireland, Northern Ireland and Great Britain, through diverse businesses across the energy value chain. ESB owns the electricity distribution and transmission networks in the Republic of Ireland and its wholly-owned subsidiary, Northern Ireland Electricity Networks Limited, is the owner of the electricity distribution and transmission networks and is the distribution network operator in Northern Ireland. ESB's other primary activities are the generation and supply of electricity in Ireland and certain other countries.

The Issuer, NIE Finance plc, is a wholly-owned subsidiary of the Guarantor (together with the Guarantor's other subsidiary undertakings, the **Group**). The Guarantor also wholly-owns NIE Networks Services Limited, which no longer trades, and two dormant companies, NIE Limited and Northern Ireland Electricity Limited.

The Guarantor is required to comply with the ring-fencing obligations set out in the Licences as well as in its Compliance Plan (prepared for the purposes of the Licences) in relation to business independence. The Guarantor's dividend policy is in line with the restrictions set out in its Licences in relation to dividends and is in line with each Licence requirement to act in a manner calculated to secure that it has sufficient resources available to enable it to carry on its businesses.

The following simplified organisational structure chart demonstrates the ownership of the Guarantor and the Issuer. Please note that (i) dormant subsidiaries of the Guarantor and (ii) other subsidiaries of ESB are not included on this chart.



**11. Administrative, Management and Supervisory Bodies**

The Board of Directors of the Guarantor, their principal functions and their principal activities outside of the Group are as follows:

<i>Name</i>	<i>Title</i>	<i>Principal activities outside the Group</i>
Stephen Kingon, CBE	Independent Non-Executive Chairman	Stephen Kingon is the Chairman of the NI Centre for Competitiveness, Lagan Homes UK Group Limited and Pro-Chancellor at Queen’s University Belfast. He is also a non-executive Director of Anderson Spratt (Holdings) Ltd, Balcas Limited, Dale Farm Ltd and Northern Ireland Opera.
Dame Rotha Johnson, DBE	Independent Non-Executive Director	Rotha Johnson is Chairperson of Northern Ireland Screen, a member of KPMG’s Northern Ireland Advisory Board, a member of Belfast Harbour Commissioners and a director of QUBIS Limited and Ulster Garden Villages.
Alan Bryce	Independent Non-Executive Director	Alan Bryce is a non-executive director of Jersey Electricity plc and Chair of Viking Energy Shetland LLP. He is a

member of Ofgem's Network Innovation Competition Electricity Advisory Panel.

Paul Stapleton	Managing Director	Paul Stapleton is a director of Energy Networks Association Limited.
Peter Ewing	Deputy Managing Director and Director of Regulation and Market Operations	Peter Ewing is a non-executive director and Treasurer of Radius Housing

The business address for each of the above is 120 Malone Road, Belfast BT9 5HT (the registered address and head office of the Guarantor).

There are no potential conflicts of interest between the Directors' duties to the Guarantor and their private interests or other duties.

The company secretary is Ruth Conacher.

### Majority Shareholders

The Guarantor is wholly-owned by ESBNI Limited, which in turn is wholly owned and controlled by ESB; see Organisational Structure at section 10 above.

There are no arrangements currently in place the operation of which may result in a change of control of the Guarantor.

The issued share capital of the Guarantor is £36.4m comprising 145,566,431 ordinary shares of £0.25 each. All of the issued shares are fully paid and are held by ESBNI Limited.

### RP6 regulatory revenues

Set out below are the regulatory revenues for RP6:

	<b>RP6 Final Determination (6.5 yrs) Oct 2017 - March 2024 (real, 2015/16) (Note 1)</b>
Regulatory Revenue Total	£1.4 bn
Regulatory Revenue per annum	£220 mn
WACC (vanilla, real) (Note 2)	3.18%
Net Capex Total	£0.7 bn
Net Capex per annum	£101mn
Operating Allowances Total	£0.4 bn
Operating Allowances per annum	£66m p.a.
RAB Projected	£1.5 bn

**Note 1:** The RP6 values for regulatory revenue, net capex, operating allowances, RAB and WACC (Vanilla, real) are as per NIAUR's RP6 final published revenue determination (real, 2015/16). The actual RAB value at the end of the RP6 period may differ from this estimate, based on actual capital expenditure and the rate of inflation or deflation over the RP6 period.

**Note 2:** Weighted average cost of capital based on a pre-tax cost of debt and post tax cost of equity.

## SUMMARY OF FINANCIAL INFORMATION - GUARANTOR

Set out below is a summary of the Guarantor's financial position for the financial years ended 31 December 2013 to 31 December 2017:

Year ended 31 December	2013	2014	2015	2016	2017
EBITDA (£millions)	158	150	142	142	150
Capital Expenditure (£millions)	83	82	90	105	119
Net Debt (£millions)	559	567	573	601	695
FFO / Net Debt (%)	16%	14%	14%	13%	13%
FFO Interest Cover (times)	3.5x	3.3x	3.1x	3.2x	3.3x

RAB @ commencement of RP5 (01 April 2013) £1.2bn

RAB @ conclusion of RP5 (30 September 2017) £1.5bn

Net Debt/ RAB % - 2013 46.7%

Net Debt/ RAB % - 2017 46.6%

## ALTERNATIVE PERFORMANCE MEASURES - GUARANTOR

The Guarantor considers each metric set out below to constitute an "alternative performance measure" (an **APM**) as described in the European Securities and Markets Authority Guidelines on Alternative Performance Measures (the **ESMA Guidelines**) published on 5 October 2015 by the European Securities and Markets Authority and which came into force on 3 July 2016. An APM should not be considered in isolation from, or as substitute for any analysis of, financial information presented in compliance with International Financial Reporting Standards (**IFRS**) and IFRS Interpretations Committee (**IFRIC**) interpretations as adopted by the EU.

**Rationale:** Alternative performance measures included provide a summary of the key financial performance indicators of the Guarantor's business.

### A. EBITDA

**Definition:** Financial measure of operating performance.

**Reconciliation:** Operating profit before interest, taxation, depreciation, impairment, amortisation and exceptional items.

Year ended December	2013	2014	2015	2016	2017
	£m	£m	£m	£m	£m
Operating profit	£112	£102	£92	£92	£95
Release of Customer Contributions from Deferred Income	(£9)	(£10)	(£11)	(£15)	(£16)
Depreciation & Amortisation	£54	£58	£60*	£65	£71
<b>EBITDA</b>	<b>£158</b>	<b>£150</b>	<b>£142</b>	<b>£142</b>	<b>£150</b>

\* Restated amount in 2016 financial statements

### B. CAPITAL EXPENDITURE

**Definition:** Financial measure of the net amount of funds used to acquire, upgrade and maintain fixed assets.

**Reconciliation:** Property, plant and equipment and Intangible asset additions less customer contributions.



<b>Year ended December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Property, Plant and Equipment Additions	£109m	£115m	£144m	£200m	£204m
Intangible Asset Additions	£3m	£1m	£0m	£0m	£1m
Gross capital expenditure	<b>£112m</b>	<b>£116m</b>	<b>£144m</b>	<b>£200m</b>	<b>£205m</b>
Contributions in respect of Property Plant and Equipment	(£29m)	(£34m)	(£54m)	(£95m)	(£86m)
Capital expenditure	<b>£83m</b>	<b>£82m</b>	<b>£90m</b>	<b>£105m</b>	<b>£119m</b>

### C. REGULATORY ASSET BASE (RAB)

**Definition:** Valuation of the transmission and distribution networks related assets for regulatory purposes.

**Reconciliation:** An estimate of the initial market value of the regulatory asset base at privatisation plus all subsequent allowed additions to it at historical cost minus annual depreciation amounts, calculated in accordance with the NIAUR's established regulatory methodology.

#### Regulatory Asset Base (RAB)

RAB @ commencement of RP5 (01 April 2013)	£1.2 bn
RAB @ conclusion of RP5 (30 September 2017)	£1.5 bn

### D. NET DEBT

**Definition:** Financial measure which indicates the overall debt situation of the Guarantor.

**Reconciliation:** Sum of other current and non-current financial less Cash and cash equivalents.

<b>Year ended December</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Other financial liabilities (Current)	£18	£18	£18	£18	£307
Other financial liabilities (Non-Current)	£572	£572	£573	£592	£399
Cash and cash equivalents	(£32)	(£24)	(£18)	(£9)	(£11)
<b>Net Debt</b>	<b>£559</b>	<b>£567</b>	<b>£573</b>	<b>£601</b>	<b>£695</b>

### E. NET DEBT / RAB %

**Definition:** Financial measure in the form of a leverage ratio used to evaluate the financial position of a regulated utility.

**Reconciliation:** Net Debt divided by RAB.

#### Net Debt/ RAB %

	<b>2013</b>	<b>2017</b>
	<b>£m</b>	<b>£m</b>
Net Debt/ RAB%	46.7%	46.6%

\* 2013 is based on Net Debt year ended 2013 divided by RAB at the commencement of RP5 (01 April 2013); 2017 ratio is based on Net Debt year ended December 2017 divided by RAB at the conclusion of RP5 (30 September 2017)

#### F. FFO / DEBT %

**Definition:** Financial measure in the form of a leverage ratio used to evaluate a company's financial risk.

**Reconciliation:** Funds From Operations (**FFO**) divided by Debt as published by S&P Global Ratings. FFO is defined as EBITDA, minus net interest expense minus current tax expense (plus or minus all applicable adjustments). Debt is defined as gross financial debt (including items such as bank loans, debt capital market instruments, and finance leases) minus surplus cash (plus or minus all applicable adjustments).

Year ended December	2013	2014	2015	2016	2017
FFO / Debt %	15.8%	14.3%	14.3%	12.9%	13.2%

#### G. FFO INTEREST COVER (times)

**Definition:** Financial measure of FFO to interest paid and which provides information as to the ability to fund interest payments from cash flows generated by operations.

**Reconciliation:** FFO as defined per Guarantor's financial statements is operating profit, plus depreciation and amortisation, minus pension deficit repair contributions, amortisation of customer contributions and tax paid, divided by interest paid.

Year ended December	2013	2014	2015	2016	2017
FFO Interest Cover (times)	3.5x	3.3x	3.1x	3.2x	3.3x

## TAXATION

### United Kingdom

**The following applies only to persons who are the beneficial owners of Notes, hold their Notes as investments and are resident (and in the case of individual Noteholders, domiciled) in the United Kingdom for taxation purposes at all relevant times. It is a summary of the Issuer's understanding of current law and HM Revenue and Customs (HMRC) practice in the United Kingdom relating to certain aspects of United Kingdom taxation. It is intended as a general guide only, and is not intended to be (and should not be construed as) tax or legal advice. Some aspects do not apply to certain classes of person (such as dealers, certain professional investors 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. 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.**

#### A. Interest on the Notes

##### 1. *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. 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 income 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., subject to available exemptions and reliefs). 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 notice to the Issuer to pay interest to the Noteholder without deduction of United Kingdom income tax (or for interest to be paid with such tax deducted at the rate provided for in the relevant double tax treaty). A Noteholder may also be able to recover all or part of the United Kingdom income tax withheld if there is an appropriate provision in an applicable double taxation treaty.

Payments of interest on Notes made by the Guarantor under the Guarantee may be required to be made under deduction of United Kingdom income tax, but the gross up provisions at Condition 8 should then be applicable.

##### 2. *Further United Kingdom Income Tax Issues*

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

However, interest with a United Kingdom source properly received without deduction or withholding on account of United Kingdom income tax will not be chargeable to United Kingdom income tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment

in connection with which the interest is received or to which the Notes are attributable, see section B below). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

## **B. United Kingdom Corporation Tax Payers**

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

## **C. Other United Kingdom Tax Payers**

### *1. Interest*

Noteholders who are either individuals or trustees and are resident for tax purposes in the United Kingdom, or who carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency to which the Notes are attributable will generally be liable to United Kingdom income tax on the amount of any interest received in respect of the Notes.

### *2. Taxation of Chargeable Gains*

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

### *3. Accrued Income Scheme*

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

## **D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes or on a transfer by delivery of the Notes.

## **Proposed Financial Transactions Tax (FTT)**

The European Commission has published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain (each, other than Estonia, a **participating Member States**). However, Estonia has since stated it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating

Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However the Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of any Notes are advised to seek their own professional advice in relation to the FTT.

### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described under "*Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc, NatWest Markets Plc and RBC Europe Limited (the **Joint Lead Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 25 September 2018, jointly and severally agreed, subject to certain conditions, to subscribe or procure subscribers for the Notes at an issue price of 99.865 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Joint Lead Managers a combined management and underwriting commission, and will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead 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 Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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.

Each Joint Lead Manager has represented and agreed that, except as permitted by the Subscription Agreement, it 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 Joint Lead 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 any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; 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 Joint Lead 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 Directive 2014/65/EU (as amended, **MiFID II**); or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended, **IMD**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; 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 the Notes.

## **General**

No action has been taken by the Issuer, the Guarantor or any of the Joint Lead 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 Joint Lead 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 9 May 2018 and the giving of the Guarantee was duly authorised by a resolution of the Board of Directors of the Guarantor dated 9 May 2018.

### Listing

2. Application has been made to (i) the UK Listing Authority for the Notes to be admitted to 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 1 October 2018 subject only to the issue of the Temporary Global Note.
3. The total expenses related to the admission to trading of the Notes are expected to be approximately £5,250.

### Clearing Systems

4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN for this issue is XS1820002308, the Common Code is 182000230, the FISN is NIE FINANCE PLC/EUR NT 22001231 and the CFI is DYFXXB.

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

### No significant change

5. (a) There has been no significant change in the financial or trading position of the Issuer since 31 December 2017 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2017.
- (b) There has been no significant change in the financial or trading position of the Guarantor or the Group since 30 June 2018 and there has been no material adverse change in the financial position or prospects of the Guarantor or the Group since 31 December 2017.

### Litigation

6. Neither the Issuer nor the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor are 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, the Guarantor or the Group.



## **Auditors**

7. The auditors of the Issuer are PricewaterhouseCoopers LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, who have audited the Issuer's accounts, without qualification, in accordance with IFRS for the financial year ended 31 December 2017. The auditors of the Issuer were previously Ernst & Young LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, who have audited the Issuer's accounts, without qualification, for the financial year ended 31 December 2016. Neither PricewaterhouseCoopers LLP nor Ernst & Young LLP has any material interest in the Issuer.
8. The auditors of the Guarantor are PricewaterhouseCoopers LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, who have audited the Guarantor's accounts, without qualification, in accordance with IFRS for the financial year ended 31 December 2017. The auditors of the Guarantor were previously Ernst & Young LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales, who have audited the Guarantor's accounts, without qualification, for the financial year ended 31 December 2016. Neither PricewaterhouseCoopers LLP nor Ernst & Young LLP has any material interest in the Guarantor.

## **U.S. Tax**

9. 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 U.S. Internal Revenue Code of 1986, as amended."

## **Documents Available**

10. For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:
  - (a) the Memorandum and Articles of Association of the Issuer and the Memorandum and Articles of Association of the Guarantor;
  - (b) the consolidated financial statements of the Guarantor in respect of the financial years ended 31 December 2016 and 31 December 2017 and the unaudited interim report and accounts for the 6 month period ended 30 June 2018, and the non-consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2016 and 31 December 2017, in each case together with the audit reports in connection therewith. The Guarantor currently prepares audited consolidated and non-consolidated financial statements on an annual basis and the Issuer prepares audited non-consolidated financial statements on an annual basis;
  - (c) the most recently published audited annual financial statements of the Issuer and the Guarantor and the most recently published unaudited interim financial statements (if any) of the Issuer and the Guarantor, in each case together with any audit or review reports prepared in connection therewith. The Guarantor currently prepares unaudited consolidated interim financial statements on a six monthly basis and the Issuer does not currently prepare interim financial statements; and
  - (d) the Trust Deed and the Agency Agreement.

## **Joint Lead Managers transacting with the Issuer and the Guarantor**

11. Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services

for the Issuer, the Guarantor and their respective affiliates in the ordinary course of business. Certain of the Joint Lead Managers and their affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, the Guarantor and their respective affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Guarantor or their respective affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor and routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such positions could adversely affect future trading prices of Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## **Yield**

12. On the basis of the issue price of the Notes of 99.865 per cent. of their principal amount, the yield on the Notes is 2.521 per cent. on an annual basis.

The yield is calculated on the Closing Date of the basis of the issue price of the Notes. It is not an indication of future yield.

## **Interests of natural legal persons involved in the issue of the Notes**

13. Save for the fees payable to the Joint Lead Managers, the Trustee 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.

## **LEI**

14. The Legal Entity Identifier code of the Issuer is 2138009A8DWW2RUSXJ76.

**THE ISSUER**

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**THE GUARANTOR**

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**TRUSTEE**

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