

NIE Finance plc
(incorporated with limited liability in Northern Ireland)

£400,000,000 6.375 per cent. Guaranteed Notes due 2026

unconditionally and irrevocably guaranteed by

Northern Ireland Electricity Limited
(incorporated with limited liability in Northern Ireland)

Issue price: 99.898 per cent.

The £400,000,000 6.375 per cent. Guaranteed Notes due 2026 (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 Limited (the **Guarantor**).

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, or (ii) at any time at their principal amount or, if higher, an amount calculated by reference to yields on UK Treasury Stock, plus accrued interest, all 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 2 June 2026.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Notes to be admitted to the Official List of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the **Market**). The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). 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 are expected on issue to be rated A- by Fitch Ratings Limited and BBB+ by Standard & Poor's Credit Market Services Europe Limited. The Guarantor has been assigned a corporate rating of BBB+ (negative outlook) by Fitch Ratings Limited and BBB+ by Standard & Poor's Credit Market Services Europe Limited. In addition, the Guarantor's ultimate parent company, Electricity Supply Board of Ireland (**ESB**), has been assigned corporate ratings by Fitch Ratings Limited, Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited as further described on page 13 of this Offering Circular. 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. Fitch Ratings Limited, Moody's Investors Service Limited and Standard & Poor's Credit Market Services Europe Limited are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

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 2 June 2011 (the **Closing Date**) with a common depository for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 12 July 2011 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances - 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 5.

Lead Managers

BNP PARIBAS

HSBC

RBC Capital Markets

Banco Bilbao Vizcaya Argentaria, S.A.

The date of this Offering Circular is 31 May 2011

This Offering Circular comprises a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the **Prospectus Directive**).

The Issuer and the Guarantor (the **Responsible Persons**) 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 and the Guarantor and the Notes (including all information which, according to the particular nature of the Issuer, the Guarantor and of 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 Lead Managers (as described under "*Subscription and Sale*", below) nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the 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 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 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 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 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 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 United States Securities Act of 1933, as amended (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 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 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 and the United Kingdom; see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE NOTES, BNP PARIBAS AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING 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, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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

CONTENTS

	Page
Risk Factors.....	5
Documents Incorporated by Reference.....	14
Conditions of the Notes	15
Use of Proceeds.....	38
Description of the Issuer	39
Description of the Guarantor.....	41
Taxation	49
Subscription and Sale	52
General Information	54

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 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

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

The Guarantor is subject to regulation by the Northern Ireland Authority for Utility Regulation (**NIAUR**) and the Department of Enterprise Trade and Investment (**DETI**). Consequently, changes in law or regulation or regulatory policy in Northern Ireland could materially adversely affect the Guarantor. Decisions or rulings of either body 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. Currently, the Guarantor is responsible for planning, development and maintenance of the Northern Ireland networks and the transmission system operator, SONI Limited (**SONI**), is responsible for operating the transmission network and the processes are co-ordinated through transmission interface arrangements. The Guarantor is also responsible for operation of the Northern Ireland distribution system.

Directive 2009/72/EC requires effective separation of the transmission function from generation and supply. It provides for four different options which member states can adopt to achieve effective separation. Among those is the option of ownership unbundling which requires that transmission ownership, planning, development, operation and maintenance functions are carried out by one company which is separate from generation and supply. The implementation of this option could affect the Guarantor's ownership of the transmission network and the undertaking of transmission functions. This in turn may have implications for the Guarantor's financial position. The unbundling provisions must be implemented by member states by March 2012 and further detail is provided in the Business Description of the Guarantor.

Failure by the Guarantor to comply with the terms of its transmission licence and distribution licence (together referred to as the **Licence**) may lead to NIAUR making an enforcement order or levying a fine on the Guarantor. While the Licence may be terminated 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, it continues indefinitely until revoked following no less than 25 years' written notice. NIAUR has formal powers to propose modifications to 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 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 Licence and all such costs incurred to date have been recovered but there remains a small 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 and the public.

The Guarantor commits significant resources towards ensuring compliance with the above mentioned laws and regulations. Nevertheless, a major safety or environmental impact incident could expose employees, contractors and third parties to the risk of injury, therefore exposing 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 environmental standards and regulations will not increase and any such increased costs could adversely affect the Guarantor's financial performance.

Network or IT Systems failure or interruption, or damage to infrastructure

The Guarantor's business is heavily reliant on IT systems and the network infrastructure. The Guarantor may suffer a major network failure or interruption, or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or failure of information systems and supporting technology. 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 a licence, approval, regulatory requirement or contractual obligation, which could result in adverse regulatory and financial consequences. The Guarantor has not defaulted against any of the standards of service since 2004/2005.

In addition, the Guarantor may be affected by other potential events that are largely outside the Guarantor's control such as the impact of weather, unlawful or unintentional acts of third parties or force majeure. Terrorist attack, sabotage or other intentional acts may also damage the Guarantor's assets or otherwise significantly affect corporate activities.

Whilst the Guarantor has in place measures to manage the risk that it sustains an adverse financial impact through inability to carry on its operations and has in place business continuity and IT disaster recovery

plans, the risk remains that any failure or interruption could cause the Guarantor to fail to meet agreed standards of service or be in breach of a licence, approval, regulatory requirement or contractual obligation and could result in adverse regulatory and financial consequences.

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

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 and the discretionary and uncommitted elements of its proposed capital investment programme may need to be reconsidered. 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 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. In addition, the Guarantor is subject to public procurement law and the provisions of Directive 2004/17/EC (the "Utilities Directive").

Whilst the Guarantor has policies and procedures in place which seek to ensure compliance with the 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.

Pension Scheme

The Guarantor participates in the Northern Ireland Electricity Pension Scheme that covers substantially all of its employees. There are two sections to the scheme: "Focus" and "Options". "Focus" is the final salary section, most of the members of which have protected rights under the Electricity (Protected Persons) Pension Regulations (NI) 1992. Focus has been closed to new entrants since March 1998. "Options" is a money purchase (defined contribution) arrangement. Options members' contributions are matched by the Guarantor up to a maximum of 6 per cent. of salary. In addition, the Guarantor meets the cost of providing death in service and ill health benefits for Options members. The assets for both sections of the scheme are held independently of the Guarantor's own financial resources.

Estimates of the amount and timing of future funding for the Focus section of the 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. The impact of these assumptions and other factors may require the Guarantor to

make additional contributions to these pension schemes which, to the extent they were not recoverable under its price control, could materially adversely affect the Guarantor's results of operations and financial condition.

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.

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.

Power Procurement Business Guarantee

The Guarantor currently acts as guarantor for certain obligations of NIE Energy Limited's Power Procurement Business (**PPB**). PPB is part of the Viridian group of companies (the **Viridian Group**) and is contracted to purchase the output from certain power stations in Northern Ireland under Power Purchase Agreements, which power is traded into the Single Electricity Market (**SEM**) pool by PPB. As part of the introduction of the SEM in 2007, the PPB business was transferred to NIE Energy, 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, this is considered a low risk as (i) PPB is regulated business with costs and exposures under its Power Purchase Agreement covered by its price control; (ii) recovery is made through a PSO charge applied by the Guarantor; and (iii) under contractual agreements relating to the sale of NIE, there is provision for the recovery of amounts paid out by the Guarantor under these PPB guarantees from certain companies within the Viridian Group.

Credit Risk

The Guarantor's business derives its revenue principally from charges for use of the distribution system, PSO charges levied on electricity suppliers 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. With the exception of public bodies, 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 Inflation, 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's ongoing payment obligations and any termination payments under the reverse swaps are guaranteed by 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.

Loss of key Personnel

The Guarantor's ability to implement its long-term business strategy depends on the capabilities and performance of its personnel. 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.

Outsourcing

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.

Data Protection and 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 could affect the Guarantor's ability to conduct day-to-day operations, while any compromise of the confidentiality of information held by the Guarantor may have an adverse impact on the Guarantor's business, reputation, results of operations, operating costs, prospects and/or financial condition.

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 Guarantor has policies and procedures 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.

Project Delivery

Project execution in general may be subject to commercial, construction, technical, contractor, planning permission, relevant approvals and economic risks. Failure to deliver planned new projects to successful technical and commercial operation, including, without limitation, the "Enduring Solution" project as referenced in the Business Description of the Guarantor, could have a material adverse effect on the Guarantor's business, results of operations, operating costs, prospects and/or financial condition.

Litigation

The Guarantor is, from time to time, involved in legal proceedings. Any adverse result in relation to any such proceedings could have an adverse effect on the Guarantor's financial position, reputation and profitability.

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 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 affect on the Guarantor's operations and/or financial position. To mitigate this risk the Guarantor enters into fixed price 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.

Price Control

NIAUR sets price controls for the Guarantor as described in more detail in the Business Description of the Guarantor. Although NIAUR has published a consultation paper on the strategy for the next price control which will determine how much revenue NIE should be allowed to earn over the five years from 1 April 2012 (**RP5**) and must have regard (amongst other things) to the need to ensure that the Guarantor is able to finance its authorised activities, until NIAUR's proposals are finalised it is not possible to predict with certainty the full impact of RP5 or future price controls on the Guarantor's business.

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

The Notes may not be a suitable investment for all investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact 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 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.

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

Modification, 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, agree to (i) any modification 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).

EU Savings Directive

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

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

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

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.

Denominations 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 an amount which is less than £100,000 in his 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.

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 the 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 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 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 or principal than expected, or no interest or principal.

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

Credit ratings may not reflect all risks

Fitch Ratings Limited and Standard & Poor's Credit Market Services Europe Limited are expected to assign credit ratings to the Notes. The 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, including but not limited to the credit ratings assigned by those agencies to the Guarantor's ultimate parent company; ESB, and or any change to such credit ratings. As at the date of this Offering Circular, ESB has been assigned an investment grade rating by each of Fitch Ratings Limited, Standard & Poor's Credit Market Services Europe Limited and by Moody's Investors Service Limited (which latter rating is listed as review for downgrade). A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the **CRA Regulation**) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Legal investment considerations may restrict certain investments

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the auditors report and audited consolidated and non-consolidated annual financial statements of the Guarantor for the financial year ended 31 March 2010 including the information set out at the following pages in particular:

Audit Report	Page 25
Income Statement	Page 26
Balance Sheet	Page 27
Changes in Equity	Page 28
Cash Flow Statement	Page 29
Accounting Principles and Notes	Page 30-56

- (b) the auditors report and audited consolidated and non-consolidated annual financial statements of the Guarantor for the financial year ended 31 March 2011 including the information set out at the following pages in particular:

Audit Report	Page 26
Income Statement	Page 27
Balance Sheet	Page 28
Changes in Equity	Page 29
Cash Flow Statement	Page 30
Accounting Principles and Notes	Pages 31-57

Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

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

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 £400,000,000 6.375 per cent. Guaranteed Notes due 2026 (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 2 June 2011 (the **Trust Deed**) made between the Issuer, Northern Ireland Electricity Limited (the **Guarantor**) as guarantor and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 2 June 2011 (the **Agency Agreement**) made between the Issuer, the Guarantor, the initial Paying Agent and the Trustee 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 Fifth Floor, 100 Wood Street, London EC2V 7EX, England and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the 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 the 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 are 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 and interest in respect of the Notes and all other moneys 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 (as defined below) 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 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 2 June 2011 at the rate of 6.375 per cent. per annum, payable annually in arrear on 2 June (each an **Interest Payment Date**). The first payment (representing a full year's interest) (for the period from and including 2 June 2011 to but excluding 2 June 2012 and amounting to £63.75 per £1,000 principal amount of Notes) shall be made on 2 June 2012.

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 on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

6. PAYMENTS

6.1 Payments in respect of Notes

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

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

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) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Notes are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European

Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

- (d) 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 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.

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 2 June 2026.

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 price which shall be:

- (i) the principal amount thereof; or, if higher;
- (ii) that price (the **Redemption 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 third Business Day in London (as defined in Condition 6.5) prior to the publication of the notice of redemption referred to below, would be equal to the Gross Redemption Yield on such Business Day of the 5.00 per cent. Treasury Stock due 2025 or, if such stock is no longer in issue, of such other United Kingdom government stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers as are selected by the Trustee, 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 dealing day, as determined by an independent investment bank selected by the Issuer with the approval of the Trustee (the **Determination Agent**). Any reference in these Conditions and the Agency Agreement to **principal** shall be deemed to include any sum payable as the Redemption Price,

together with accrued interest up to the date of redemption.

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 16 March 2005 and as further updated or amended) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places)), or on such other basis as the Trustee may approve.

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 and the price payable on 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 relative redemption price applicable at the date of such redemption together with any interest accrued to (but excluding) such date.

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 2 June 2011, 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, société anonyme (**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 depositary 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 or enabling a supply to be given to any premises in the Authorised Distribution Area in effect on 2 June 2011;
 - (iv) **Distribution System** means all electric lines situated within the Authorised Distribution Area owned or operated by the Guarantor or any other member of the Group from time to time (excepting any interconnector) and any other electric lines which the Northern Ireland Authority for Utility Regulation (the **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 and includes any electrical plant and meters owned or operated by the Guarantor or any other member of the Group in connection with the distribution of electricity;
 - (v) **Electricity Order** means the Electricity (Northern Ireland) Order 1992 (as amended) made pursuant to the Northern Ireland Act 1974;
 - (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;

- (iii) **Group** means the Guarantor and the Subsidiary Undertakings and **member of the Group** shall be construed accordingly;
- (iv) **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 or distribution (whether for its own account or that of third parties) of electricity through the Distribution System (including any business in constructing connections to the Distribution System);
- (v) **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, or ancillary to, the planning, development, construction and maintenance of the Transmission System (whether or not pursuant to directions of The Department of Enterprise, Trade and Investment (**DETI**) (or any successor) made under Articles 37 or 38 of the Electricity Order) and the operation of the Transmission System, including any business in providing connections to the Transmission System, but shall not include any activities which at any time and from time to time are not exclusively reserved to the Guarantor or the Group by the Transmission Licence;
- (vi) **Internal Markets Regulations** means The Gas and Electricity (Internal Markets) Regulations (Northern Ireland) 2011;
- (vii) 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;
- (viii) 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;
- (ix) **Rating Agency** means Standard & Poor's Credit Market Services 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);
- (x) **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;

- (xi) 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);
- (xii) **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 of a Successor Licence (as defined below) provided that the giving of not less than 25 years' notice pursuant to paragraph 3 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 and/or a Subsidiary of the Guarantor (not being an Excluded Subsidiary), as the case may be, agreeing in writing with NIAUR (or any successor) to any revocation or surrender of the Distribution Licence, the Transmission Licence or 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 2 June 2011 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 DETI or NIAUR under Articles 4 and 6, respectively, of the Electricity Order as in force on 2 June 2011 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;

- (xiii) **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)(vii) 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;
- (xiv) **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);
- (xv) **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;
- (xvi) **Transmission Licence** means the licence granted to the Guarantor under the terms of the Electricity Order to participate in the transmission of electricity for the purpose of giving a supply or enabling a supply to be given to any premises in the Authorised Transmission Area in effect on 2 June 2011;
- (xvii) **Transmission System** means the system of electric lines owned or operated by the Guarantor or any other member of the Group from time to time comprising the high voltage lines and electrical plant and meters for conveying electricity from a generating station to a substation, from one generating station to another, from one substation to another, to a substation in Northern Ireland from a place outside Northern Ireland or from a substation in Northern Ireland to a place outside Northern Ireland, each within the Authorised Transmission Area (excepting any interconnector) and any other electric lines which NIAUR (or any successor) may specify as forming part of the transmission system owned or operated by the Guarantor or any other member of the Group from time to time but shall not include any part of the system exclusively forming part of the Group's Distribution Business (including the Distribution System); and
- (xviii) 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, unless the withholding or deduction of the 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 the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) presented for payment in the United Kingdom; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the

same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 6).

8.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 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 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 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 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 £20,000,000 or its equivalent in other currencies (as determined by the Trustee) and, for the purposes of this subparagraph (c), **indebtedness for borrowed money** shall exclude Project Finance Indebtedness; or
- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, 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)(xii) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to paragraph (A) 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 DETI (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 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 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 (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

18.1 Governing Law

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

18.2 Jurisdiction of English Courts

Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee, the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes or the Coupons (including any disputes relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes or the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts.

Each of the Issuer and the Guarantor has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed, the Notes or the Coupons respectively (together referred to as **Proceedings**), including any Proceedings relating to non-contractual obligations arising out of or in connection with the Trust Deed, the Notes or the Coupons, against the Issuer or the Guarantor in any other court of competent jurisdiction and 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 respect of any Proceedings 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 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 12 July 2011, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement 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. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global

Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of 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 relative Accountholders rather than by publication as required by Condition 13. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of 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 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 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.

5. 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 five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

6. 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 endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of 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 depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised

and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. 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.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, amounting to not less than £397,992,000 (before deduction of expenses), 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.

Recent Events

There 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 47 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>
Harry McCracken	Executive Director
Joe O'Mahony	Executive Director
Peter Ewing	Executive Director
Mary Collins	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 partly paid at £0.25 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.

Financial Information

Since the date of its incorporation and as at the date of this Offering Circular, no financial statements of the Issuer have been prepared.

DESCRIPTION OF THE GUARANTOR

Information about the Guarantor

The legal name of the Guarantor is Northern Ireland Electricity Limited, and it trades commercially as “Northern Ireland Electricity” or “NIE”.

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.

In December 2010, the Guarantor was sold by Viridian Group Limited to ESBNI Limited, a wholly owned subsidiary of the Electricity Supply Board of Ireland (**ESB**) an Irish statutory corporation.

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 Limited (**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 Single Electricity Market, the power procurement and supply businesses of the Guarantor were transferred to a separately licensed subsidiary of Viridian Group PLC, NIE Energy Limited, leaving the Guarantor with the transmission and distribution businesses. NIE Energy Limited now sits outside the Guarantor's group.

The Guarantor was re-registered as a private company on 26 November 2010.

Business Overview

The Guarantor owns the electricity transmission and distribution systems in Northern Ireland, and operates the electricity distribution system (SONI operates the transmission system). The Guarantor's Transmission and Distribution Business (the **T&D Business**) is responsible for the transportation of electricity throughout Northern Ireland and comprises the planning and development of the transmission and distribution system (in the case of transmission, in conjunction with SONI in accordance with the Transmission Interface Arrangements, which set out the roles of both the Guarantor and SONI in relation to transmission planning

and development and how they interact) the construction and maintenance of the transmission system and the construction, operation and maintenance of the distribution system to convey electricity between generating stations, interconnectors and customers' premises.

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 820,000 customers via a number of substations. Voltages at or above 110kV are used in the transmission network. The distribution network operates at lower voltages of between 33kV and 230kV. There are approximately 2,170km of the transmission system; 43,500km of the distribution system; and approximately 250 major substations. The T&D Business provides connections to the network and 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.

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 Licence (as defined in section 3 below) and known as the "Land Bank" business. The Land Bank business of the Guarantor manages the freehold of these sites under direction from the Northern Ireland Authority for Utility Regulation (**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 (the **1992 Order**) as amended and by the conditions of the licences which have been granted under the 1992 Order. It is also subject to EU legislation relating to the environment and competition. In 2007, the domestic legislation and the licensing regime changed with the introduction of the Single Electricity Market (**SEM**) for the island of Ireland and the full implementation of EU Directive 2003/54/EC (the **IME2 Directive**), which gave effect to the unbundling requirements of the EU, and will be changing again to reflect the implementation of its successor Directive, EU Directive 2009/72/EC (the **IME3 Directive**) as described below.

The 1992 Order, as amended, requires a licence to be granted (or an exemption to be utilised) for generation, supply, participation in transmission and acting as market 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 the Department of Enterprise, Trade and Investment (**DETI**) are the principal entities involved in the regulation and oversight of the electricity market in Northern Ireland. The principal objective of both NIAUR and DETI 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 or supply of electricity.

Each of NIAUR and DETI 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 ensure that all reasonable demands for electricity are met and that licensees are able to finance their authorised activities. In performing that duty NIAUR and DETI are required to have regard to the interests of individuals whose circumstances include being disabled, chronically sick or of pensionable age or having 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.

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 Commission for Energy Regulation of Ireland (**CER**). 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 and to promote effective competition between persons engaged in, or in commercial activities connected with, the sale or purchase of electricity through the SEM. In carrying out its functions it must have regard to the need to meet electricity demand, ensure authorised activities (by licence or exemption) can be financed, ensure the functions of the relevant bodies can be co-ordinated, ensure transparent pricing in the SEM and avoid discrimination between Northern Ireland and the Republic of Ireland. It must also seek to promote efficiency, secure sustainable long-term energy supply and promote research and development whilst having regard to the environment and the need to promote renewable energy.

3. Licences

The 1992 Order, as amended, requires a licence to be granted by NIAUR, (or alternatively for an exemption to be utilised) for supply, generation, participation in transmission, distribution and for acting as market operator.

The Guarantor holds a licence to participate in transmission which covers making the transmission assets available and certain distribution requirements and does not have the benefit of any licence exemptions. As of 15 April 2011, legislative changes extended the list of licensable activities to participation in distribution and deemed that the Guarantor’s transmission licence was to have effect as both a transmission licence and a distribution licence (together referred to as the **Licence**). It is possible that NIAUR may subsequently grant the Guarantor a separate distribution licence. NIAUR has powers to enforce compliance with the Licence conditions and to settle disputes between the Guarantor and other persons as to certain matters covered by the licence conditions.

Under the terms of the Licence, the Guarantor is also required to comply with a “Compliance Plan”, a document which is required to be approved by NIAUR and which sets out how the Guarantor complies with the independence requirements of the Licence.

SONI holds a licence to participate in transmission which covers the operation of the transmission system. SONI and the Guarantor currently hold the only two transmission licences in Northern Ireland.

Under Articles 14 to 18 of the 1992 Order, NIAUR may modify a licence upon agreement being reached with the licence holder, and once standard licence conditions are in place, which are a requirement for all licences, it may modify those standard conditions in certain circumstances. Where required, if agreement cannot be reached, NIAUR may refer the modification to the Competition Commission. It is for the Competition Commission to determine whether the existing licence operates against the public interest and if so whether modification of the licence may remedy or prevent such operation. Should the Competition Commission’s report find that the existing licence does operate against the public interest and that modification may remedy or prevent such operation, then NIAUR may present its proposed modifications and the Competition Commission may either allow NIAUR to implement such modifications or veto the modifications. Licence conditions may also be amended by order under statutory provisions of the Enterprise Act 2002 by either the Office of Fair Trading, the Competition Commission or the Secretary of State. The SEM Committee is, as at the date hereof, conducting a consultation on proposed modifications to the Guarantor’s Licence in light of the acquisition of the Guarantor by the ESB Group. The Guarantor is also in

the process of reviewing the terms of its Compliance Plan with NIAUR to reflect the new ownership structure.

Pursuant to its terms, the Guarantor's Licence remains in force unless terminated 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.

Participation in Transmission Licence Conditions

The Licence sets out the requirements for ensuring that the business is ring-fenced 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 financial) 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 and charges for connection to and use of the system.

4. Price Control

The Guarantor is subject to a price control, defined in a formula set out in the Guarantor's Licence, 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 DETI under the relevant legislation. These include having regard to the need to ensure 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 transmission and distribution price control was reset with effect from 1 April 2007 and is scheduled to run to 31 March 2012. This is the fourth five year regulatory period since privatisation of the Guarantor and it is referred to as Regulatory Period 4 (**RP4**).

The key aspects of the RP4 price control are as follows:

Rate of return: The allowed rate of return in respect of the distribution portion of the Guarantor's regulatory asset base (**RAB**) (which is taken to represent 82% of the overall RAB) was 4.9% post tax real for the first three years of RP4 in line with the 2005 distribution network operator (**DNO**) price control in Great Britain (**DPCR4**). For the last two years the allowed return in respect of distribution is reduced to 4.0% post tax real in line with the Ofgem baseline allowed return for DPCR5. The allowed return on the transmission portion of the RAB is fixed for the duration of RP4 at 6.4% pre tax real. The rates of return are applied to the RAB which is RPI-indexed.

Operating costs: The allowance for controllable costs in each year of RP4 is set equal to the RPI-indexed level of actual costs incurred during the corresponding year in RP3 (T&D price control period April 2002 to March 2007). The allowance was subject to some specific reductions in 2007/08 and 2008/09 and also a small disallowance in respect of early retirement pension deficiency costs. The allowance for uncontrollable costs such as rates, wayleaves and licence fees is set equal to the actual cost in each year.

Capital expenditure: The five year capital expenditure budget (net of customer contributions) agreed at the start of RP4 was £374m (in 2010/11 prices) compared to £306m in RP3 (in 2010/11 prices). This investment is driven by the need to replace worn assets and to meet continued growth in customer demand. Capital expenditure is added to the RAB as it is incurred and earns the regulatory rate of return.

In July 2010, NIAUR issued a consultation paper in relation to its strategy for the next price control (**RP5**) which is due to be effective from 1 April 2012. The Guarantor has responded to the strategy consultation paper and has submitted a business plan. Interactions are ongoing between the Guarantor and NIAUR in relation to RP5.

5. Fluid Filled Cables (FFC)

As is standard within the industry, the Guarantor uses FFCs for transmission and distribution. The Guarantor intends to commence a replacement programme as part of the new price control investment plan for this asset category. The Guarantor's ongoing programme of monitoring and repairing leaks where necessary along with the improved biodegradable nature of modern mineral oil used ensures the environmental impact of the use of the FFCs are minimised. No regulatory body has initiated correspondence with the Guarantor in relation to the use of these cables.

6. 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.

The main provisions of the Directive that may affect the T&D Business relate to unbundling. The Third Package requires greater separation of transmission interests from generation and supply than the legislation it replaces, with the aim of ensuring that there is no discrimination and that vertically integrated undertakings invest adequately in their networks. Currently, the Guarantor is responsible for planning, development and maintenance of the networks and SONI Limited is responsible for operating the transmission network and the processes are co-ordinated through the Transmission Interface Arrangements.

The Third Package provides for four potential options for achieving effective separation: (i) full transmission ownership unbundling so that ownership, planning, development, operation and maintenance functions are carried out by one company which is separate from generation and supply; (ii) the Independent System Operator (**ISO**) model which requires the investment, planning, development and maintenance functions to be carried out by an independent company while the assets could remain in a vertically integrated utility; (iii) the Independent Transmission Operator (**ITO**) model which provides for the system operator and system owner to be a separately ring-fenced business within a vertically integrated utility; and (iv) the continuation of the existing arrangements in place before the IME3 Directive came into force on 3 September 2009, if the vertically integrated utility can demonstrate that the model it has in place as of that date guarantees more effective independence than the ITO model.

The IME3 Regulations provide for a transmission licensee to apply to NIAUR for certification under any of options (i), (ii) or (iv) and NIAUR has a period of 4 months to make a decision in relation to such certification, which is then to be approved by the European Commission. Certification is required by 4 March 2012. The Guarantor is working towards certification under option (iv), which would have no effect on the Guarantor structure if granted.

The Guarantor is in the course of implementing an IT system which will replace the Quarterly Billing System (**QBS**), a billing system application that is owned by the Guarantor and shared with NIE Energy Limited (**NIE Energy**). The project, known as the "Enduring Solution" was initiated in consultation with NIAUR in order to (a) provide full business separation between the Guarantor's and NIE Energy's systems; (b) provide unlimited capacity for consumers to switch supplier; and (c) accommodate potential future changes to market requirements. The Guarantor and NIE Energy have jointly engaged a single systems integrator to implement each party's solution to replace QBS. A go-live date of May 2012 has been agreed with NIAUR.

7. Renewable Energy

As DETI has signed up to the EU Renewable Energy Directive, which includes a Northern Ireland target of 40 per cent. of energy from renewable sources by 2020, there will be implications for grid investment, grid technology and grid connection policy which will in turn impact on the investment plans for the Guarantor's business. The Guarantor has developed short term and medium term plans, and is in the process of developing long term plans (in co-operation with SONI and EirGrid), for the network development required to be able to connect the level of renewable generation needed to meet the 40 per cent. target. These investment plans will in turn have to be approved by NIAUR. To achieve the 40 per cent. target it has been estimated that approximately £1bn will need to be invested in the electricity network in Northern Ireland by 2020/2025. It is currently anticipated that this will be added to the RAB, although alternative funding structures may be considered by NIAUR.

8. Interconnection

The Guarantor, working jointly with EirGrid, is progressing the development of the 400kV Tyrone-Cavan interconnector to further strengthen the interconnection of the electricity networks of Northern Ireland and the Republic of Ireland. In December 2009, the Guarantor submitted a planning application seeking consent to construct a new 275/400kV substation near Moy, Co. Tyrone and 33.9km 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 August 2010, the Northern Ireland Minister for the Environment announced that the planning application would be referred to the Planning Appeals Commission for a public inquiry. No date has yet been announced for the public inquiry.

9. Capital Structure

The Guarantor is the issuer of Northern Ireland Electricity plc £175,000,000 6.875 per cent. Bonds due 2018 (the **1998 Bonds**) which were issued on 18 March 1998. The 1998 Bonds are currently outstanding and are scheduled to mature on 18 September 2018.

10. Organisational Structure

The Guarantor is a direct subsidiary of ESBNI Limited, which was established as a subsidiary of ESB during 2010 to acquire the Guarantor and its subsidiaries listed below (the **Transaction**).

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 2004 of Ireland. It is majority owned by the Government of Ireland through the Minister for Finance of Ireland (who holds 85 per cent. of its issued capital stock) and the Minister for Communications, Energy and Natural Resources 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 an Employee Share Ownership Trust.

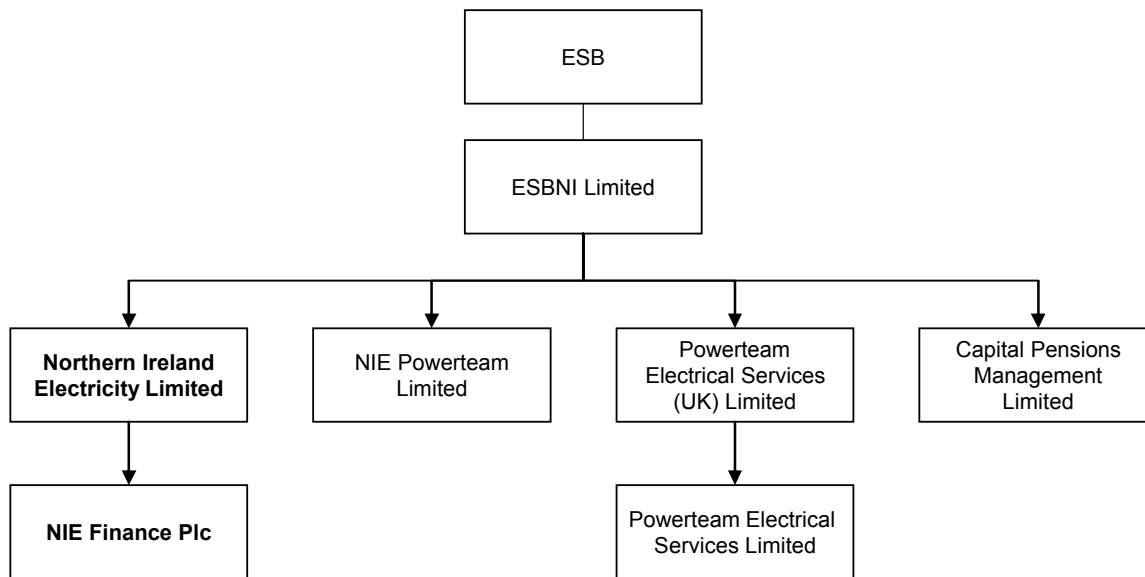
As part of the Transaction, three additional companies, Powerteam Electrical Services (UK) Limited, NIE Powerteam Limited and Capital Pensions Management Limited, were also acquired by ESB and are subsidiaries of ESBNI Limited. Powerteam Electrical Services Limited was also acquired as part of the Transaction and is an Irish subsidiary company of Powerteam Electrical Services (UK) Limited. NIE Powerteam Limited provides intra-group services exclusively to the Guarantor and sits within the regulatory ring-fence which applies to the Guarantor under the terms of its Licence.

The Guarantor has four dormant subsidiary companies, NIE Power Limited, NIE Generation Limited, NIE Limited and NIE Enterprises Limited. The Issuer, NIE Finance PLC, is also a wholly-owned subsidiary of the Guarantor.

The Guarantor is required to comply with the ring-fencing obligations set out in the Licence as well as in its Compliance Plan (prepared for the purposes of the Licence) in relation to business independence. The Guarantor's dividend policy is in line with the restrictions set out in its Licence in relation to dividends and is

in line with its 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 the Group are as follows:

<i>Name</i>	<i>Title</i>	<i>Principal activities outside the Group</i>
Harry McCracken	Managing Director (due to retire at the end of June 2011)	
Joe O'Mahony	Managing Director Designate (to take over in July 2011)	
Stephen Kingon, CBE	Independent Non-Executive Chairman	Stephen Kingon is currently the Chairman of Invest Northern Ireland and the NI Centre for Competiveness and director of a number of other companies.
Rotha Johnson, CBE	Independent Non-Executive Director	Rotha Johnson is currently Pro-Chancellor of Queen's University Belfast, National Trustee for Northern Ireland for the BBC Trust and an independent board member at the Department of Justice in Northern Ireland.
Ronnie Mercer	Independent Non-Executive	Ronnie Mercer has been Chairman of

Director

Scottish Water since 2006 and is
Chairman of Business Stream.

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.

TAXATION

United Kingdom

The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and HM Revenue and Customs (HMRC) practice in the United Kingdom relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. 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 tax.

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

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

Payments of interest on the 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.

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

2. *EU Savings Directive*

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

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

3. *Further United Kingdom Income Tax Issues*

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

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

B. United Kingdom Corporation Tax Payers

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

C. Other United Kingdom Tax Payers

5. *Taxation of Chargeable Gains*

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

6. *Accrued Income Scheme*

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

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

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

SUBSCRIPTION AND SALE

BNP Paribas, HSBC Bank plc, Royal Bank of Canada Europe Limited and Banco Bilbao Vizcaya Argentaria, S.A. (the **Lead Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 31 May 2011, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.898 per cent. of the principal amount of Notes. The Issuer has agreed to pay the Lead Managers a combined management and underwriting commission, and will also reimburse the Lead Managers in respect of certain of their expenses, and has agreed to indemnify the 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 payment of the Issuer.

United States

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 may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

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

Each 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 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 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 an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue 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.

General

No action has been taken by the Issuer, the Guarantor or any of the 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 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 16 May 2011 and the giving of the Guarantee was duly authorised by a resolution of the Board of Directors of the Guarantor dated 16 May 2011.

Listing

2. It is expected that official listing will be granted on or about 3 June 2011 subject only to the issue of the Temporary Global Note. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market.
3. The total expenses related to the admission to trading of the Notes are expected to be approximately £4,200.

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 XS0633547087 and the Common Code is 063354708.

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, société anonyme, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

5. There has been no significant change in the financial or trading position of the Guarantor or the Group since 31 March 2011 and there has been no material adverse change in the financial position or prospects of the Guarantor or the Group since 31 March 2011.

There has been no significant change in the financial or trading position of the Issuer since the date of incorporation on 28 April 2011 and there has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation on 28 April 2011.

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 have 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 Ernst & Young LLP, which is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. The Issuer has not prepared any financial statements since the date of its incorporation. The auditors of the Issuer have no material interest in the Issuer.
8. The auditors of the Guarantor are 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, in accordance with IFRS for each of the two financial years ended

on 31 March 2010 and 31 March 2011. The auditors of the Guarantor have no material interest in the Issuer.

U.S. tax

9. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the 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 March 2010 and 31 March 2011, in each case together with the audit reports in connection therewith. The Guarantor currently prepares audited consolidated and non-consolidated accounts on an annual basis and the Issuer intends to prepare audited non-consolidated accounts 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 accounts on a six monthly basis; and
 - (d) the Trust Deed and the Agency Agreement.

Lead Managers transacting with the Issuer and the Guarantor

11. Certain of the 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 services to the Issuer, the Guarantor and their affiliates in the ordinary course of business.

Yield

12. On the basis of the issue price of the Notes of 99.898 per cent. of their principal amount, the yield on the Notes is 6.386 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 commissions described under "*Subscription and Sale*" above, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

THE ISSUER

NIE Finance plc
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Belfast BT9 5HT

THE GUARANTOR

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Belfast BT9 5HT

TRUSTEE

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