



**Guardian**

Guardian Royal Exchange plc

**Guardian Royal Exchange plc**

*(Incorporated with limited liability in England and Wales under the Companies Acts 1948 to 1981.  
Registered number 1821312)*

**£150,000,000**

**6<sup>5</sup>/<sub>8</sub> per cent. Guaranteed Bonds due 2023**

Unconditionally and irrevocably guaranteed by

**Guardian Royal Exchange Assurance plc**

*(Incorporated with limited liability in England and Wales under the Companies Acts 1948 to 1967.  
Registered number 932111)*

**ISSUE PRICE: 98.861 PER CENT.**

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Bonds to be admitted to the Official List. Copies of this document, which comprises the listing particulars approved by the London Stock Exchange as required by the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in England and Wales.

The Bonds will bear interest from 21 August 1998 and interest will be payable annually in arrear on 21 August in each year, the first payment of interest being made on 21 August 1999.

The Bonds mature on 21 August 2023.

The Bonds will initially be represented by a temporary global Bond without interest coupons (the "Temporary Global Bond"), which will be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") on or about 21 August 1998 (the "Closing Date") and will be exchangeable for a permanent global Bond without interest coupons (the "Permanent Global Bond" and, together with the Temporary Global Bond, the "Global Bonds") on or after 30 September 1998 upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in whole (but not in part) for Bonds in definitive form with interest coupons attached only in certain limited circumstances as further described under "Summary of Provisions Relating to the Bonds while Represented by the Global Bonds" below.

**Greenwich NatWest**

**ABN AMRO**

**Commerzbank Aktiengesellschaft**

**HSBC Markets**

**Barclays Capital**

**Deutsche Bank**

19 August 1998



*This document contains particulars given in compliance with the Listing Rules made by the London Stock Exchange for the purpose of giving information with regard to the £150,000,000 6 <sup>5</sup>/<sub>8</sub> per cent. Guaranteed Bonds due 2023 (the "Bonds") issued by Guardian Royal Exchange plc (the "Issuer" and, together with its subsidiary undertakings, the "Group") and unconditionally and irrevocably guaranteed by Guardian Royal Exchange Assurance plc (the "Guarantor"). The Guarantor accepts responsibility for the information contained in this document relating to it. The Issuer accepts responsibility for all the information contained in this document. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case) the information contained in this document for which they are respectively responsible is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*No dealer, salesman or other person has been authorised to give any information or to make any representation not contained herein and any information or representation not contained herein must not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers (as defined under "Subscription and Sale" below). Neither the delivery of this document nor any subscription, sale or purchase made in connection herewith shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer or the Guarantor or the Group since the date hereof or that any information contained in this document is correct at any time subsequent to its date.*

*This document does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or the Managers to subscribe for or purchase, any of the Bonds. The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer, the Guarantor and the Managers to inform themselves about, and to observe, any such restrictions.*

*The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended, but are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. A further description of certain restrictions on the offering and sale of the Bonds and on the distribution of this document is given under "Subscription and Sale" below.*

*In connection with this issue Midland Bank plc may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time. HSBC Markets Limited is the Appointed Representative of Midland Bank plc.*

*All references herein to "pounds", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom.*

## TABLE OF CONTENTS

Terms and Conditions .....	3
Summary of Provisions Relating to the Bonds while Represented by the Global Bonds .....	12
Use of Proceeds .....	13
Guardian Royal Exchange plc .....	14
Consolidated Capitalisation of the Issuer .....	16
Guardian Royal Exchange Assurance plc .....	17
Consolidated Capitalisation of the Guarantor .....	18
Description of the Business and Interim Statement of the Issuer .....	19
Financial Statements of the Guarantor .....	24
Report of the Auditors of the Guarantor .....	40
United Kingdom Taxation .....	41
Subscription and Sale .....	42
General Information .....	43

## TERMS AND CONDITIONS

*The following Terms and Conditions (save for the paragraph in italics) will be endorsed on each Bond in definitive form, if any:*

The £150,000,000 6<sup>5</sup>/<sub>8</sub> per cent. Guaranteed Bonds due 2023 (the "Bonds", which expression shall, in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 13 and forming a single series therewith) of Guardian Royal Exchange plc (the "Issuer") are constituted by a trust deed (the "Trust Deed") dated 21 August 1998 made between the Issuer, Guardian Royal Exchange Assurance plc (the "Guarantor") as guarantor and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed). The issue of the Bonds was authorised by resolutions of a duly appointed committee of the Board of Directors of the Issuer dated 29 July 1998 and 17 August 1998 and a resolution of the Board of Directors of the Issuer dated 17 June 1998 and the giving of the guarantee by the Guarantor was authorised by resolutions of a duly appointed committee of the Board of Directors of the Guarantor dated 29 July 1998 and 17 August 1998, a resolution of the Board of Directors of the Guarantor dated 16 July 1998 and a written resolution of the shareholders of the Guarantor dated 18 August 1998. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Payments in respect of the Bonds and the interest coupons appertaining thereto (the "Coupons" which expression shall, unless the context otherwise requires, include the talons for further interest coupons (the "Talons")) will be made pursuant to an agency agreement (the "Agency Agreement") dated 21 August 1998 and made between the Issuer, the Guarantor, the Trustee, Midland Bank plc as principal paying agent (the "Principal Paying Agent") and the other paying agent referred to therein (together with the Principal Paying Agent, the "Paying Agents"). Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of each of the Paying Agents. The holders of the Bonds (the "Bondholders") and the holders of the Coupons (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 those provisions of the Agency Agreement applicable to them.

### 1. Form, Denomination and Title

The Bonds are in bearer form and serially numbered, with Coupons and, if applicable, one Talon attached on issue, in denominations of £1,000, £10,000 and £100,000 each. Bonds of one denomination may not be exchanged for Bonds of another denomination.

Title to the Bonds and Coupons will pass by delivery. The Issuer, the Guarantor, the Trustee and the Paying Agents may deem and treat the holder of any Bond or Coupon as the absolute owner thereof (notwithstanding any notice to the contrary and whether or not such Bond or Coupon shall be overdue and notwithstanding any notation of ownership or other writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment thereon or on account thereof and for all other purposes and shall not be liable for so treating the holder.

### 2. Status

The Bonds and the Coupons are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank *pari passu* and rateably without any preference among themselves and (subject as aforesaid and to such exceptions as are from time to time applicable under applicable laws) *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Issuer.

### 3. Guarantee

The due and punctual payment of the principal and interest in respect of the Bonds (together with any additional amounts payable under Condition 8 and all other moneys payable by the Issuer under the Trust Deed) has been unconditionally and irrevocably guaranteed by the Guarantor in the terms set out in the Trust Deed (the "Guarantee"). The obligations of the Guarantor under the guarantee are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and rank and will rank (subject as aforesaid and to such exceptions as are from time to time applicable under applicable laws) *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor.

*Note: The Guarantor is an insurance company and as such is subject to the provisions of the Insurance Companies Act 1982. The Act provides, inter alia, that in any winding-up of an insurance company with long-term business the assets representing the funds maintained by the insurance company in respect of its long-term business shall be available only for meeting the liabilities of the insurance company attributed to that business. The Guarantor does not at the date hereof transact any long-term business.*

### 4. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Issuer will procure, so far as the Issuer by the proper exercise of voting and other rights or powers of

control exercisable by the Issuer in relation to subsidiaries can procure, that no Principal Insurance Subsidiary (as defined in Condition 9) shall, create or have outstanding any mortgage, charge, pledge, lien or other encumbrance (other than any arising by operation of law) upon the whole or any part of its or their respective undertakings or assets (other than assets representing the fund or funds maintained by the Issuer, the Guarantor or any of the Principal Insurance Subsidiaries in respect of long-term business (as defined in the Insurance Companies Act 1982, as from time to time modified or re-enacted)), present or future, as security for any Relevant Indebtedness or for any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time securing the Bonds and all amounts payable under the Guarantee equally and rateably therewith to the satisfaction of the Trustee or providing such other security therefor which the Trustee in its absolute discretion shall deem not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

The foregoing provisions will not apply to any mortgage, charge, pledge, lien or other encumbrance upon the whole or part of the undertaking or assets of any Principal Insurance Subsidiary which becomes a Principal Insurance Subsidiary after the date of the issue of the Bonds (being a mortgage, charge, pledge, lien or other encumbrance which existed at the time such company became a Principal Insurance Subsidiary and which was not created in contemplation of it becoming a Principal Insurance Subsidiary).

"Relevant Indebtedness" means any indebtedness for moneys borrowed (as defined in Condition 9) (other than (i) indebtedness in the form of sterling debenture stock (as defined in the Trust Deed), (ii) indebtedness which has a stated maturity not exceeding one year or (iii) indebtedness which comprises non-recourse borrowings (as defined below)) which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which, with the agreement of the issuer of such indebtedness, are quoted, listed, dealt in or traded on a stock exchange, or over the counter or other recognised securities market (whether or not distributed by way of private placement) provided that, in so far as this Condition 4 applies to a Principal Insurance Subsidiary (other than the Guarantor), Relevant Indebtedness shall exclude indebtedness for moneys borrowed in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities denominated or payable in the currency of the jurisdiction of incorporation of such Principal Insurance Subsidiary or where its head office is located and initially distributed primarily to investors in that jurisdiction.

"non-recourse borrowings" means any indebtedness for moneys borrowed to finance the ownership, acquisition, development and/or operation of an asset in respect of which the person or persons to whom any such indebtedness for moneys borrowed is or may be owed by the relevant borrower has or have no recourse whatsoever to the Issuer or any of its Subsidiaries for the repayment thereof other than:

- (1) recourse to such borrower for amounts limited to the cash flow or 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 moneys borrowed 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 moneys borrowed, provided that (a) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (b) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for moneys borrowed, 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 the Issuer or any of its Subsidiaries, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof) by the person against whom such recourse is available.

"Subsidiary" means a subsidiary as defined in section 736 of the Companies Act 1985.

## **5. Interest**

The Bonds bear interest from and including 21 August 1998 at the rate of  $6\frac{5}{8}$  per cent. per annum, payable annually in arrear on 21 August in each year (each an "Interest Payment Date"). The first such payment of interest (representing a full year's interest) will be made on 21 August 1999.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused. In such event, interest will continue to accrue (after as well as before any judgment) up to but excluding the date on which, upon further presentation, payment in full of the principal

thereof is made or (if earlier) the seventh day after notice is duly given to the holder of such Bond (in accordance with Condition 16) that upon further presentation of such Bond being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made.

Whenever it is necessary to compute an amount of interest in respect of any Bond for a period of less than a full year, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

## **6. Redemption and Purchase**

### **(a) *Mandatory redemption***

Unless previously redeemed or purchased and in each case cancelled as provided below, each of the Bonds shall be redeemed at its principal amount on 21 August 2023.

### **(b) *Redemption at the option of the Issuer***

The Issuer may, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable), redeem all the Bonds for the time being outstanding, or from time to time some only (being £5,000,000 in principal amount or an integral multiple of £1,000,000 in excess thereof), at the price which shall be the higher of the following, together with interest accrued up to and including the date of redemption:

- (i) par; and
- (ii) that price (the "Redemption Price"), expressed as a percentage (rounded to three decimal places, 0.0005 being rounded up), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the date of publication of the notice of redemption, would be equal to the Gross Redemption Yield on such dealing day of 8 per cent. Treasury Stock 2021 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 or such other three persons operating in the gilt-edged market as the Trustee may approve, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing at 11:00 a.m. on such dealing day, as determined by Midland Bank plc (or such other person as the Trustee may approve).

Upon the expiry of such notice, the Issuer shall be bound to redeem the Bonds accordingly.

References in the Trust Deed and in these Terms and Conditions to principal shall, unless the context otherwise requires, be deemed to include a reference to the Redemption Price.

The "Gross Redemption Yield" on the Bonds and on the Reference Stock will be expressed as a percentage and will be calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978 page 18 or on such other basis as the Trustee may approve.

### **(c) *Drawings***

Where a partial redemption is to be effected pursuant to paragraph (b) of this Condition, Bonds to be called for redemption will be selected in a place and manner chosen by the Issuer and approved by the Trustee without involving any part only of a Bond, not more than 65 days before the date fixed for redemption. Each notice of redemption will specify the date fixed for redemption, the aggregate principal amount, the redemption price and the serial numbers of the Bonds to be redeemed, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption and will be given by the Issuer to the Bondholders in accordance with Condition 16 not less than 30 nor more than 45 days before the date fixed for redemption.

### **(d) *Repayment for tax reasons***

If the Issuer or, as the case may be, the Guarantor at any time satisfies the Trustee that, as a result of any actual or proposed change in the laws or regulations of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, or in the application or interpretation of such laws or regulations, in each case becoming effective after 19 August 1998, on the occasion of the next payment due in respect of the Bonds either:

- (i) the Issuer would be unable to make such payment without having to pay additional amounts as provided or referred to in Condition 8 or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed or to account to any taxing authority for any amounts (other than any tax

withheld or deducted from interest payable on such Bonds) in respect of any payments made or to be made on any such Bond; or

- (ii) the Guarantor would be unable to procure payment by the Issuer and in making payment itself under its guarantee would be unable to make such payment without having to pay additional amounts as provided or referred to in Condition 8 or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed or would be obliged to account as aforesaid,

the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), redeem all the Bonds, but not some only, at their respective principal amounts together with interest accrued to the date fixed for 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 the Guarantor would be obliged to pay such additional amounts or account as aforesaid were a payment in respect of the Bonds then due. Upon the expiry of such notice, the Issuer shall be bound to redeem the Bonds accordingly.

It shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph if the Issuer or the Guarantor shall deliver to the Trustee a certificate of an independent lawyer or accountant satisfactory to the Trustee in a form satisfactory to the Trustee to the effect either that such circumstances exist or that, upon a change in the laws or regulations of the United Kingdom or the application or interpretation thereof, which at the date of such certificate is proposed and which in the opinion of such lawyer or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Bonds would otherwise be made, becoming so effective, such circumstances would exist.

(e) *Purchases*

The Issuer, the Guarantor or any of the Issuer's other Subsidiaries may at any time purchase Bonds (provided that all unmatured Coupons are attached thereto or purchased therewith) at any price in the open market or by tender (available to all Bondholders alike) or by private treaty. The Issuer, the Guarantor or the relevant Subsidiary may at its option retain such Bonds for its own account and/or resell or cancel or otherwise deal with such Bonds at its discretion. Bonds held beneficially by or on behalf of the Issuer, the Guarantor or any of the Issuer's other Subsidiaries shall not entitle the holder to vote at any meetings of the Bondholders and such Bonds shall be deemed not to be outstanding for the purposes of calculating quorums at meetings of Bondholders.

(f) *Cancellation*

All Bonds redeemed or purchased by the Issuer, the Guarantor or any of the Issuer's other Subsidiaries and surrendered for cancellation shall be cancelled forthwith (together with all unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons) presented or purchased therewith) and such Bonds may not be re-issued or re-sold.

## **7. Payments and Exchange of Talons**

Payments of principal and interest in respect of Bonds will be made against presentation and surrender (or, in the case of part payment only, endorsement) of Bonds, or in the case of payments of interest due on an Interest Payment Date against surrender (or, in the case of part payment only, endorsement) of Coupons, at the specified office of any Paying Agent. All such payments shall be made at the option of the holder by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.

Payments in respect of principal and interest on the Bonds 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.

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons), 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 Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 11) or, if later, five years after the date on which the Coupon would have become due, but not thereafter. Upon any of the Bonds becoming due and repayable on or prior to 21 August 2013, the unmatured Talons appertaining thereto will become void for all purposes and no further Coupons will be issued in respect thereof.

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

"Presentation Date" means a day which (subject to Condition 11):

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

"Business Day" means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments in that place.

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 11. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Terms and Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that it will at all times maintain at least two Paying Agents having specified offices in separate European cities approved by the Trustee, one of which, so long as the Bonds are listed on the London Stock Exchange Limited (the "London Stock Exchange") and the London Stock Exchange so requires, shall be London or such other place as the London Stock Exchange may approve and one of which shall be outside the United Kingdom. Notice of any termination or appointment and of any changes in specified offices of the Paying Agents will be given to the Bondholders promptly by the Issuer in accordance with Condition 16.

## **8. Taxation**

All payments in respect of the Bonds by the Issuer, or as the case may be, the Guarantor shall be made without withholding of or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges 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 holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of such withholding or deduction except that no such additional amounts shall be payable with respect to any Bond or Coupon:

- (i) to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (ii) to, or to a third party on behalf of, a holder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption to any authority of or in the United Kingdom but fails to do so; or
- (iii) presented for payment in the United Kingdom; or
- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days, assuming, whether or not such is in fact the case, such last day to be a Presentation Date (as defined in Condition 7).

As used herein the "Relevant Date" means the date on which such payment first becomes due, but if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 16. Any reference herein to principal or interest shall be deemed also to refer to any additional amounts which may be payable under this provision or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## 9. Repayment in Event of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified to its satisfaction), (but, in the case of the happening of any of the events mentioned in paragraphs (ii), (v) and (vii) below in relation to the Issuer or the Guarantor and (iii) to (vii) below (inclusive) in relation to a Principal Insurance Subsidiary, only if the Trustee shall have certified in writing that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly 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 shall occur and, solely in relation to paragraphs (iii), (iv) and (vi) below, is continuing:

- (i) if default is made for a period of 7 days or more in the payment of any principal or for a period of 14 days or more in the payment of any interest due or in respect of the Bonds or any of them; or
- (ii) if default is made by the Issuer or the Guarantor in the performance or observance of any obligation, condition or provision binding upon either of them under the Bonds or the Trust Deed (other than any obligation for the payment of any principal or interest in respect of the Bonds) and, except where such default is, in the opinion of the Trustee, not capable of remedy when no such continuation and notice as is hereinafter mentioned will be required, such default continues for 30 days (or such longer period as the Trustee may permit) after written notice has been given by the Trustee to the Issuer and the Guarantor requiring the same to be remedied; or
- (iii) if an order is made or an effective resolution is passed for the winding up of, or an administration order is made in relation to, the Issuer, the Guarantor or any Principal Insurance Subsidiary (save, in the case of a Principal Insurance Subsidiary, (a) with the prior written consent of the Trustee or the prior sanction of an Extraordinary Resolution of the Bondholders for the purposes of or in connection with an amalgamation, reorganisation or reconstruction, or (b) a voluntary solvent winding-up where surplus assets are available for distribution); or
- (iv) if the Issuer, the Guarantor or a Principal Insurance Subsidiary stops or threatens to stop payment to its creditors generally or the Issuer, the Guarantor or a Principal Insurance Subsidiary ceases or threatens to cease to carry on its business or substantially the whole of its business (except for the purposes of, or in connection with, a reconstruction, reorganisation or amalgamation the terms of which have previously been approved in writing by the Trustee or an Extraordinary Resolution of the Bondholders or, in the case of a Principal Insurance Subsidiary, such a winding-up as is referred to in (iii)(b) above); or
- (v) if an encumbrancer takes possession or an administrative or other receiver or an administrator is appointed of the whole or any substantial part of the undertaking, property and assets of the Issuer, the Guarantor or a Principal Insurance Subsidiary or if a distress or execution is levied or enforced upon or sued out against the whole or any substantial part of the chattels or property of the Issuer, the Guarantor or a Principal Insurance Subsidiary and, in the case of any of the foregoing events, is not discharged within 45 days or such longer period as the Trustee may allow; or
- (vi) if the Issuer, the Guarantor or a Principal Insurance Subsidiary is unable to pay its debts within the meaning of section 123(2) of the Insolvency Act 1986; or
- (vii) if any indebtedness for moneys borrowed (as defined below) (other than any indebtedness for moneys borrowed which comprises non-recourse borrowings (as defined in Condition 4)) of the Issuer, the Guarantor or any Principal Insurance Subsidiary is not paid on its due date (or by the expiry of any applicable grace period) or becomes due and payable prior to its stated maturity by reason of default or if any guarantee or indemnity in respect of any indebtedness for moneys borrowed of any third party given by the Issuer, the Guarantor or any Principal Insurance Subsidiary is not honoured when due and called upon and, in any such case, the liability of the Issuer, the Guarantor or any Principal Insurance Subsidiary to make payment is not being contested in good faith, provided that no such event shall constitute an Event of Default unless the indebtedness for moneys borrowed or other relative liability either alone or when aggregated with other indebtedness for moneys borrowed and/or other liabilities relative to all (if any) other such events which shall have occurred shall amount to at least £20,000,000 (or its equivalent in any other currency or currencies).

"Principal Insurance Subsidiary" means any Subsidiary of the Issuer:

- (i) whose gross written premium income (which expression wherever used in this definition shall mean both life and general gross written premium income) before reinsurance ceded (consolidated in the case of a Subsidiary which itself has Subsidiaries) for the latest financial period for which audited accounts of such Subsidiary have been published and attributable to the Issuer is not less than 10 per cent. of the consolidated gross written premium income before reinsurance ceded of the Issuer and its subsidiary undertakings for the latest financial



period for which audited accounts of the Issuer and its subsidiary undertakings have been published, all as calculated by reference to the then latest audited accounts of such Subsidiary (consolidated in the case aforesaid) and the then latest audited consolidated accounts of the Issuer and its subsidiary undertakings; or

- (ii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated gross written premium income before reinsurance ceded of such transferee Subsidiary attributable to the Issuer of not less than 10 per cent. of the gross written premium income before reinsurance ceded of the Issuer and its subsidiary undertakings, all as calculated as referred to in paragraph (i) above provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Insurance Subsidiary unless immediately following such transfer its undertaking and assets generated gross written premium income of such transferor Subsidiary attributable to the Issuer of not less than 10 per cent. of the gross written premium income before reinsurance ceded of the Issuer and its subsidiary undertakings, all as calculated as referred to in paragraph (i) above, and the transferee Subsidiary shall cease to be a Principal Insurance Subsidiary pursuant to this paragraph on the date the audited consolidated accounts of the Issuer and its subsidiary undertakings for the financial period current at the date of such transfer are published but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Insurance Subsidiary on or at any time after the date on which such audited consolidated accounts have been published by virtue of the provisions of paragraph (i) above.

A report by the Auditors (as defined in the Trust Deed) that in their opinion a Subsidiary is or is not or was or was not at any particular time or during any specified period a Principal Insurance Subsidiary shall, in the absence of manifest error, be conclusive and binding on all concerned.

“indebtedness for moneys borrowed” means the principal amount of:

- (i) all moneys borrowed; and
- (ii) all debentures (together in each case with any fixed or minimum premium payable on final redemption or repayment) which are not for the time being beneficially owned by the Issuer, the Guarantor or any of the Issuer's other Subsidiaries.

## **10. Enforcement**

The Trustee may at its discretion institute such proceedings as it may think fit to enforce the obligations of the Issuer and/or the Guarantor under the Trust Deed, the Bonds and the Coupons, but shall not be bound to institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding and (b) it shall have been indemnified to its satisfaction. No Bondholder or Couponholder shall be entitled to institute proceedings directly against the Issuer and/or the Guarantor unless the Trustee having become bound so to proceed fails to do so within a reasonable time and such failure is continuing.

## **11. Prescription**

Claims against the Issuer or the Guarantor for payment in respect of Bonds and Coupons (which for this purpose shall not include Talons) will become void unless made within 10 years (in the case of principal) and 5 years (in the case of interest) from the Relevant Date (as defined in Condition 8) in respect thereof. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to the provisions of this Condition or Condition 7.

## **12. Meetings of Bondholders, Modification, Waiver and Substitution**

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Terms and Conditions or any of the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds for the time being outstanding so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and certain of the provisions of the Trust Deed, the quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed contains provisions for an Extraordinary Resolution to take the form of an instrument or instruments signed by the holder or the holders of not less than three-quarters in principal amount of the Bonds for the time being outstanding.

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error. The Trustee may also agree without consent as aforesaid (i) to the substitution of the Guarantor in place of the Issuer as principal debtor under the Trust Deed, the Bonds and the Coupons or (ii), subject to the Bonds and the Coupons remaining unconditionally and irrevocably guaranteed by the Guarantor, to the substitution of a Subsidiary of the Issuer in place of the Issuer as principal debtor under the Trust Deed, the Bonds and the Coupons or (iii) to the substitution of (a) a successor in business (as defined in the Trust Deed) to the Guarantor or (b) a Subsidiary of the Guarantor acceptable to the Trustee as guarantor of the Bonds, in each case in place of the Guarantor, any such substitution as aforesaid being subject to the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced thereby and to such other amendments to the Trust Deed and such other conditions as the Trustee may require.

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 as aforesaid), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders 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 Bondholder 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 Bondholders 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.

Any such modification, waiver, authorisation or substitution shall be binding on the Bondholders and Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

### **13. Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Bondholders or the Couponholders, to create and issue further bonds or notes (whether in bearer or registered form) either having the same terms and conditions in all respects (or in all respects save for the amount of and/or the date of the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding bonds or notes of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may at the time of issue thereof determine. Any such bonds or notes, if they are to form a single series with the outstanding bonds or notes of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it, shall be constituted by a deed supplemental to the Trust Deed and in any other case if the Trustee so agrees may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series where the Trustee so decides.

### **14. Replacement of Bonds and Coupons**

Should any Bond 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 a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses incurred in connection therewith (including the fees and expenses of the Principal Paying Agent and its designated agents) and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

### **15. Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from instituting proceedings to enforce payment unless indemnified to its satisfaction.

### **16. Notices**

All notices to the Bondholders 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. Any notice shall be deemed to have been given on the date of publication or, if so published more than once,

on the date of the first publication. It is expected that publication will normally be made in the *Financial Times*. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

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

#### **17. Governing Law**

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

## **SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS**

The following is a summary of the provisions to be contained in the Global Bonds which will apply to, and in some cases modify, the Terms and Conditions of the Bonds while the Bonds are represented by the Global Bonds.

### **1. Issue of Global Bonds**

The Bonds will initially be represented by the Temporary Global Bond, without interest coupons, which will be deposited with a common depository for Euroclear and Cedel Bank on or about the Closing Date. Interests in the Temporary Global Bond will be exchangeable for interests in the Permanent Global Bond on or after 30 September 1998 upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury Regulations. The Permanent Global Bond will also be deposited with a common depository for Euroclear and Cedel Bank.

### **2. Exchange of Permanent Global Bond**

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds only (i) upon the happening of any of the events defined in the Trust Deed as "Events of Default", (ii) if either Euroclear or Cedel Bank 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 (iii) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) of any jurisdiction or as a result of a change in the practice of Euroclear and/or Cedel Bank which would not be suffered were the Bonds 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 (i) and (ii) above) the holder of the Permanent Global Bond (acting on the instructions of an Accountholder (as defined below)) or the Trustee may give notice to the Issuer, and (in the case of (iii) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond will surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds (each having attached to it Coupons in respect of interest which has not already been paid on the Permanent Global Bond and, if applicable, one Talon), 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 Bond, the Principal Paying Agent will cause the Permanent Global Bond to be cancelled and destroyed.

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

### **3. Payments**

No payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond 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 Bonds, surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. A record of each payment will be endorsed on the appropriate schedule to the relevant Global Bond 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 Bonds. Payments of interest on the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made upon certification as to non-US beneficial ownership unless such certification has already been made.

### **4. Notices**

For so long as all the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Cedel Bank (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 16 provided that, so long as the Bonds are listed on the London Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*). Any such notice

given only by delivery as aforesaid shall be deemed to have been given to the Bondholders on the seventh day after the day on which such notice is delivered to Euroclear and/or Cedel Bank (as the case may be) as aforesaid.

## **5. Accountholders**

For so long as the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, each person who is for the time being shown in the records of Euroclear or Cedel Bank as the holder of a particular principal amount of such Bonds (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Cedel Bank as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantor, the Trustee and the Paying Agents as the holder of such principal amount of such Bonds for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders) other than with respect to the payment of principal and interest on such Bonds, the right to which shall be vested, as against the Issuer, the Guarantor, the Trustee and the Paying Agents, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed (and the expressions "Bondholders" and "holder of Bonds" and related expressions shall be construed accordingly). Bonds which are represented by a Global Bond will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Cedel Bank as the case may be. Each Accountholder must look solely to Euroclear or Cedel Bank, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

## **6. Prescription**

Claims against the Issuer or the Guarantor in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and 5 years (in the case of interest) from the Relevant Date (as defined in Condition 8).

## **7. Cancellation**

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds 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 Bond on the relevant Schedule thereto.

## **8. Redemption at the option of the Issuer**

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Cedel Bank, no drawing of Bonds will be required under Condition 6(c) in the event that the Issuer exercises its right of early redemption pursuant to Condition 6(b) in respect of less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the standard procedures of Euroclear and/or Cedel Bank shall operate to determine which interests in the Global Bond(s) are to be subject to such early redemption.

## **9. Alternative clearing systems**

Any reference herein to Euroclear and/or Cedel Bank shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Principal Paying Agent and the Trustee and, for so long as the Bonds remain listed on the London Stock Exchange, the London Stock Exchange.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Bonds, amounting to approximately £147,329,000, will be used for general corporate purposes, in particular the refinancing of certain existing debt.

## **GUARDIAN ROYAL EXCHANGE plc**

### **Incorporation and Registered Office of the Issuer**

The Issuer was incorporated as a public limited company under the Companies Acts 1948 to 1981 on 1 June 1984.

The registered office of the Issuer is at Royal Exchange, London EC3V 3LS.

### **Board of Directors**

The Directors of the Issuer, each of whose address is Royal Exchange, London EC3V 3LS, their functions within the Issuer and their principal activities of significance are as follows:

Lord Hambro

Chairman

Director of Hambros PLC and Chairman from 1983 until 1997, a director of Peninsular & Oriental Steam Navigation Company and San Paolo Bank Holdings SpA. Also Chairman of the Royal National Pension Fund for Nurses.

Julian Sheffield

Deputy Chairman

Chairman of Portals Group plc from 1979 to 1995, a director of De la Rue plc and Inspec plc. A trustee of Henry Smith's Charities since 1971 and Chairman since 1997.

John Robins

Group Chief Executive

The Hon. Edward Adeane

Non Executive Director. Director of Hambros PLC from 1992 to February 1998. Director of English and Scottish plc and the British Library.

Volker Bremkamp

Group Executive Director – Continental Europe

Caroline Burton

Group Executive Director – Investment

Sir Colin Chandler

Non Executive Director. Group Chairman and Chief Executive of Vickers P.L.C., a director of the TI Group plc, a member of the National Defence Industries Council and a vice-president of the Engineering Employers' Federation.

Sir Brian Hayes

Non Executive Director. Permanent Secretary at the Department of Trade and Industry until 1989. A director of Tate & Lyle plc and an advisory director of Unilever plc. He is the Lloyd's Members' Ombudsman.

James Morley

Group Executive Director – Finance

Sir Paul Newall

Non Executive Director. Senior adviser to Lehman Brothers, vice-president of The Institute of Export, a member of the Advisory Committee of Energy International NV, former allied member of the New York Stock Exchange, Pro-Chancellor and Chairman of the Council of City University and Lord Mayor of London from 1993 to 1994.

Peter Owen

Group Executive Director – Healthcare

Raymond Pierce

Group Executive Director – Marketing

Sir Peter Reynolds

Non Executive Director. Group Managing Director of Rank Hovis McDougall PLC from 1972 to 1981 and Chairman from 1981 to 1989. He is Chairman of Pioneer Concrete Holdings PLC and a director of Pioneer International Limited of Australia, Clive Holdings PLC, Avis Europe Limited and The Boots Company plc.

John Sinclair

Group Executive Director – UK and Ireland

Sir Anthony Tennant

Non Executive Director. Senior Adviser to Morgan Stanley UK Group and Deputy Chairman of Arjo Wiggins Appleton plc. A director of Christies International plc since 1993 and Chairman from 1993 to 1996. A director of BNP Holdings Ltd. Group. Chief Executive of Guinness plc 1987 to 1989 and Chairman 1989 to 1993.

Victor Yerrill

Group Executive Director – The Americas

## CONSOLIDATED CAPITALISATION OF THE ISSUER

The authorised share capital of the Issuer consists of 1,142,859,044 ordinary shares of 5<sup>1</sup>/<sub>4</sub> pence each and 931,707,318 non-cumulative redeemable preference shares of 20<sup>1</sup>/<sub>2</sub> pence each. As at 30 June 1998, 879,561,314 of the ordinary shares and 41,608,011 of the non-cumulative redeemable preference shares were issued and fully paid.

The following table sets out the consolidated capital and reserves and borrowings of the Issuer and its subsidiary undertakings as at 30 June 1998 (excluding the borrowings referred to in Note (2)):

### Capital and reserves as at 30 June 1998

	£m
Share capital	55
Share premium	42
Retained profits and reserves	2,645
Shareholders' Funds	2,742

### Borrowings as at 30 June 1998

	£m
10.75 per cent. Secured Debenture Stock 2006	1
Bank loans	348
Non-bank loans	1
	350

#### Notes:

- (1) The capital, reserves and borrowings are based on unaudited figures at 30 June 1998. Capital and Reserves are shown net of the interim dividend announced by the directors of the Issuer on 29 July 1998.
- (2) Subsidiary undertakings of the Issuer also have borrowings related solely to their life operations. These borrowings at 30 June 1998 amounted to £2 million.
- (3) The Group has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.
- (4) Foreign currency borrowings have been translated at closing exchange rates at 30 June 1998.
- (5) Borrowings exclude intra-group loans.
- (6) Borrowings have not been adjusted to take account of the Bonds now being issued.
- (7) £6 million of the bank loans and £1 million of the non-bank loans are secured, as is the 10.75 per cent. Secured Debenture Stock 2006.
- (8) The non-bank loans are in respect of computer equipment leased by a member of the Group.
- (9) Of the unsecured bank borrowings, £338 million have been made by the Guarantor and guaranteed by the Issuer.
- (10) Save as disclosed above there has been no material change in the consolidated capital, reserves and borrowings of the Issuer since 30 June 1998.



## **GUARDIAN ROYAL EXCHANGE ASSURANCE plc**

### **Incorporation and Registered office of the Guarantor**

The Guarantor was incorporated as a private limited company under the Companies Acts 1948 to 1967 on 15 May 1968. The Guarantor was re-registered as a public limited company under the Companies Acts 1948 to 1967 on 4 January 1982 and its name was changed to Guardian Royal Exchange Assurance plc. Pursuant to a Scheme of Arrangement sanctioned by the High Court on 5 November 1984 and which became effective on 9 November 1984, the Guarantor became a wholly-owned subsidiary of the Issuer.

The registered office of the Guarantor is at Royal Exchange, London EC3V 3LS.

### **Board of Directors**

The Directors of the Guarantor, each of whose address is Royal Exchange, London EC3V 3LS, are as follows:

John Robins	Chairman and Chief Executive
Caroline Burton	
James Morley	
Peter Owen	
Raymond Pierce	
John Sinclair	

Each of the Directors is also a director of the Issuer.

## CONSOLIDATED CAPITALISATION OF THE GUARANTOR

The authorised share capital of the Guarantor consists of 300,000,000 ordinary shares of 25 pence each, of which 195,725,542 were issued and fully paid as at 30 June 1998.

The following table sets out the consolidated capital and reserves and borrowings of the Guarantor and its subsidiary undertakings as at 30 June 1998 (excluding the borrowings referred to in Note (2)):

### Capital and reserves as at 30 June 1998

	£m
Share capital	49
Share premium	170
Retained profits and reserves	2,056
Shareholders' Funds	2,275

### Borrowings as at 30 June 1998

	£m
10.75 per cent. Secured Debenture Stock 2006	1
Bank loans	348
Non-bank loans	1
	350

#### Notes:

- (1) The capital, reserves and borrowings are based on unaudited figures as at 30 June 1998.
- (2) Subsidiary undertakings of the Guarantor also have borrowings related solely to their life operations. These borrowings at 30 June 1998 amounted to £2 million.
- (3) The Guarantor and its subsidiaries have contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.
- (4) Foreign currency borrowings have been translated at closing exchange rates at 30 June 1998.
- (5) Borrowings exclude intra-group loans.
- (6) £6 million of the bank loans and £1 million of the non-bank loans are secured, as is the 10.75 per cent. Secured Debenture Stock 2006.
- (7) The non-bank loans are in respect of computer equipment leased by a member of the Group.
- (8) Of the unsecured bank borrowings, £338 million have been made by the Guarantor and guaranteed by the Issuer.
- (9) Save as disclosed above there has been no material change in the consolidated capital, reserves and borrowings of the Guarantor since 30 June 1998.

## DESCRIPTION OF THE BUSINESS

### Introduction

The Issuer is the holding company for a group of companies (together, the "Group") which carries on general and health insurance, life assurance and related services in the United Kingdom and in many parts of the world. The Group's origins go back to 1720, when the Royal Exchange Assurance was established by Royal Charter and the present Group is the result of its merger in 1968 with Guardian Assurance, founded in 1821.

The Guarantor is the principal insurance subsidiary of the Issuer. It undertakes a broad range of general insurance business and has a number of subsidiary and associated companies in various geographical locations which transact insurance, assurance and reinsurance business, and provide services in connection therewith, including asset management.

As at 31 December 1997 the Group had total assets in excess of £20 billion and employed approximately 15,000 people world-wide. As at that date the net asset value was £2,669 million and pre-tax profits of the Group for the year ending on that date amounted to £872 million. The Issuer's ordinary shares are listed on the London Stock Exchange.

### Business Activities

The Group's core business activities are general insurance, health insurance, life assurance and related services.

#### *General Insurance*

The Group's general insurance business is broadly based and transacts motor, household, commercial property and liability business. This business represented approximately 76 per cent. of the Group's net premium income for the year ended 31 December 1997.

The Group has its principal operations in the United Kingdom, the Republic of Ireland, Continental Europe, North America, South Africa and Asia.

The Group's operating divisions are supported by a corporate centre based in the Royal Exchange in the City of London.

#### *Health Insurance*

Since 1993 Guardian Health, the Group's health insurance subsidiary, has been looking after the healthcare needs of small, medium-sized and multinational companies as well as those of individuals.

The acquisition of PPP healthcare group plc on 24 February 1998 took the Group's share of the United Kingdom private medical insurance market, based on figures available at that date, to approximately 33 per cent. At the date of the acquisition, the Group became the second largest provider of private medical insurance, the largest long-term care insurer and the largest provider of dental health plans in the United Kingdom.

#### *Life Assurance*

The Group's life assurance business transferred £34 million to shareholders during 1997. At the end of 1997, the value of shareholders' interests in the Group's life funds was £309 million of which £48 million was recorded in the Group's balance sheet.

The Group's principal life assurance operations are in the United Kingdom, Continental Europe and the Republic of Ireland.

The Group is carrying out a review of past sales of UK personal pensions as required by The Financial Services Authority. The Directors of the Issuer are of the opinion that suitable provision has been made for compensation potentially payable to customers disadvantaged by inappropriate pensions advice.

#### *Related Services*

The Group's non-insurance operations are in businesses related to the core business, such as risk management, claims handling and asset management.

### Recent Developments

On 24 February 1998 the Group acquired PPP healthcare group plc, one of the UK's largest health insurers.

On 27 February 1998 the Group announced the acquisition of Aegis Insurance in South Africa.

On 28 April 1998 shareholder approval was received for Guardian Royal Exchange plc to return approximately £189 million of capital to shareholders by way of a bonus issue of one redeemable B share for each existing ordinary share and a 20 : 21 capital consolidation of ordinary shares. This has now been implemented and over 95 per cent. of the redeemable B shares have been redeemed.

On 1 June 1998 the Group announced the acquisition of the US property and casualty insurance operations from ING Group ("ING") for US\$1.15 billion and the sale to ING of the Group's Canadian property and casualty insurance operations for US\$375 million. Both of these transactions are subject to regulatory approval and are not reflected in the Consolidated Capitalisation of the Issuer and of the Guarantor as at 30 June 1998 and as set out on pages 16 and 18 respectively.

### **Extract from the Interim Statement of the Issuer**

The following is an extract from the interim statement of the consolidated unaudited results of the Group published on 29 July 1998:

#### **Chairman's statement:**

"In the first half we have been very active in pursuing our strategy of investing in markets where we expect good long-term profitable growth and withdrawing from those where we cannot see a satisfactory return over the longer term.

Total worldwide net premium income for the six months was £2,027 million (1997: £1,866 million), including £249 million from PPP healthcare group, and we achieved a pre-tax profit of £451 million (1997: £494 million). This result was affected by severe weather conditions primarily in the UK and Canada costing £37 million and Year 2000 costs of £10 million. Investment management once again made a significant contribution to the Group's pre-tax result with investment gains of £432 million (1997: £380 million).

The underwriting environment remains very competitive everywhere, particularly in the UK motor sector, however we are beginning to see the beneficial effects of the rate increases introduced in 1997.

The Directors have declared an interim dividend of 4.3 pence per share (1997: 3.9 pence per share) – an increase of 10 per cent.

The unaudited financial statements of Guardian Royal Exchange Group for the six months ended 30 June 1998 are:

### Consolidated Profit and Loss Account

	First six months 1998 £m	**restated First six months 1997 £m	restated Year 1997 £m*
<b>Written premiums</b>			
Continuing business:			
General	1,345	1,462	2,696
Healthcare	51	42	73
Life	367	362	776
	<u>1,763</u>	<u>1,866</u>	<u>3,545</u>
Acquisitions:			
General	15	—	—
Healthcare	249	—	—
	<u>2,027</u>	<u>1,866</u>	<u>3,545</u>
<b>Result before taxation from</b>			
Continuing business:			
General	130	150	311
Healthcare	(6)	(8)	(12)
Life	20	16	36
Corporate investment	326	320	545
Share of associates	3	24	22
	<u>473</u>	<u>502</u>	<u>902</u>
Acquisitions:			
Healthcare	(8)	—	—
Corporate investment	(4)	—	—
Share of associates	3	—	—
	<u>464</u>	<u>502</u>	<u>902</u>
<b>Operating profit</b>	<u>464</u>	<u>502</u>	<u>902</u>
Movement in claims equalisation reserves	(9)	(8)	(30)
Goodwill amortisation	(4)	—	—
	<u>451</u>	<u>494</u>	<u>872</u>
<b>Profit before taxation and minority interests</b>	<u>451</u>	<u>494</u>	<u>872</u>
Taxation	(112)	(121)	(240)
Minority interests	(15)	(25)	(34)
	<u>324</u>	<u>348</u>	<u>598</u>
<b>Profit after taxation and minority interests</b>	<u>324</u>	<u>348</u>	<u>598</u>
Dividends	(38)	(36)	(106)
	<u>286</u>	<u>312</u>	<u>492</u>
<b>Transfer to reserves</b>	<u>286</u>	<u>312</u>	<u>492</u>
<b>Earnings per ordinary share</b>	<u>36.8p</u>	<u>38.3p</u>	<u>65.5p</u>

The calculation of earnings per share is based on a profit of £324m (1997: £348m) and on a weighted average of 879,463,895 (1997: 912,942,329) ordinary shares.

\* Extracted from the Group's full accounts for 1997 which received an unqualified audit report and which have been filed with the Registrar of Companies.

\*\* In accordance with the treatment adopted in the full year 1997 accounts, claims equalisation reserves are now included as liabilities. Comparative figures for the first six months 1997 have been restated to reflect the change.

Comparative figures for both the first six months and full year 1997 have been restated to show the results of healthcare business separately.

## Consolidated Balance Sheet

	As at 30 June 1998 £m	**restated As at 30 June 1997 £m	As at 31 December 1997 £m*
Intangible assets	185	—	—
Investments	15,164	13,984	14,720
Assets held to cover linked liabilities	3,625	3,124	3,228
Reinsurers' share of technical provisions	549	500	497
Debtors	1,441	1,191	1,081
Other assets	1,026	878	715
<b>Total assets</b>	<b>21,990</b>	<b>19,677</b>	<b>20,241</b>
Fund for future appropriations	1,516	1,210	1,302
Technical provisions	12,007	11,135	11,320
Technical provisions for linked liabilities	3,580	3,083	3,193
Other liabilities	2,145	1,747	1,757
<b>Total liabilities</b>	<b>19,248</b>	<b>17,175</b>	<b>17,572</b>
<b>Net assets</b>	<b>2,742</b>	<b>2,502</b>	<b>2,669</b>
Representing:			
Share capital	55	46	46
Share premium	42	202	221
Capital redemption reserve	181	—	—
Reserves	2,464	2,254	2,402
<b>Shareholders' funds</b>	<b>2,742</b>	<b>2,502</b>	<b>2,669</b>

Shareholders' funds include only £47 million of the full shareholders' interest in the embedded value of life funds, which total £346m.

Shareholders' funds including full embedded value of life funds are £3,041m.

Ordinary shares in issue at 30 June 1998 were 879,561,314.

## Statement of Total Recognised Gains and Losses

	First six months 1998 £m	**restated First six months 1997 £m	Year 1997 £m*
<b>Profit after taxation and minorities</b>	<b>324</b>	<b>348</b>	<b>598</b>
Exchange losses on translation of overseas net assets not in profit and loss account	(37)	(51)	(73)
<b>Total gains relating to the period</b>	<b>287</b>	<b>297</b>	<b>525</b>
Prior year adjustment relating to the inclusion of claims equalisation reserves as liabilities	—	(75)	(75)
<b>Total gains recognised in the period</b>	<b>287</b>	<b>222</b>	<b>450</b>

\* Extracted from the Group's full accounts for 1997 which received an unqualified audit report and which have been filed with the Registrar of Companies.

\*\* In accordance with the treatment adopted in the full year 1997 accounts, claims equalisation reserves are now included as liabilities. Comparative figures for the first six months 1997 have been restated to reflect the change.

## Cash Flow Statement – General Insurance & Corporate

	First six months 1998 £m	restated First six months 1997 £m	restated Year 1997 £m
<b>Operating activities</b>			
Net cash inflow from operating activities	(2)	182	215
<b>Dividends from associates</b>	1	2	2
<b>Returns on investments and servicing of finance</b>			
Interest paid	(13)	(15)	(29)
Dividends paid by subsidiaries to minorities	(2)	(2)	(4)
	(15)	(17)	(33)
<b>Taxation paid</b>	(32)	(70)	(96)
<b>Capital expenditure</b>			
Purchases less sales of fixed assets	(11)	(10)	(17)
<b>Acquisitions and disposals</b>			
Acquisition of subsidiary undertakings	(381)	—	—
Deferred purchase consideration relating to subsidiary acquired in 1996	—	(9)	(9)
	(381)	(9)	(9)
<b>Equity dividends paid</b>	(36)	(31)	(91)
<b>Financing</b>			
Issue of ordinary share capital	5	10	19
Return of capital to shareholders	(181)	—	—
Shares issued by subsidiary undertakings	9	—	—
Increase/(decrease) in borrowings	(15)	(5)	(15)
	(182)	5	4
Cash available for investment	(658)	52	(25)
Invested as follows:			
<b>Increase in cash balances</b>	158	66	24
<b>Portfolio investments</b>			
Ordinary and preference shares	(615)	4	(234)
Fixed income securities	(6)	(25)	(12)
Property	—	(7)	(20)
Deposit with credit institutions	(195)	14	217
	(816)	(14)	(49)
<b>Net cash invested</b>	(658)	52	(25)

The cash flow statement does not include amounts relating to life business except cash transactions between life business and shareholders.

Dividends from associates are now shown separately as required by Financial Reporting Standard No. 9.

Comparative figures have been restated accordingly.”

## FINANCIAL STATEMENTS OF THE GUARANTOR

The following are the financial statements of the Guarantor for the year ended 31 December 1997.

### Guardian Royal Exchange Assurance plc

#### Profit and Loss Account for the year ended 31 December 1997

	1997 £'000	1996 £'000
<b>General Business Technical Account</b>		
Earned premiums:		
Gross written premiums	119,363	140,386
Outward reinsurance premiums	<u>(31,761)</u>	<u>(42,273)</u>
	87,602	98,113
Decrease/(increase) in provision for unearned premiums:		
Gross	800	(2,032)
Reinsurers' share	<u>(649)</u>	<u>778</u>
	151	(1,254)
Net earned premiums	87,753	96,859
Allocated investment return	1,142	1,095
Claims paid:		
Gross	(82,656)	(80,411)
Reinsurers' share	<u>26,363</u>	<u>30,998</u>
	<u>(56,293)</u>	<u>(49,413)</u>
Decrease/(increase) in outstanding claims provision		
Gross	24,081	(5,567)
Reinsurers' share	<u>(5,190)</u>	<u>(26,211)</u>
	<u>18,891</u>	<u>(31,778)</u>
Claims incurred	(37,402)	(81,191)
Net operating expenses ( <i>note: 1c</i> )	(27,746)	(28,710)
Increase in equalisation provision	<u>(985)</u>	<u>—</u>
<b>Balance transferred to non technical account</b>	<u><u>22,762</u></u>	<u><u>(11,947)</u></u>

All of the amounts above are in respect of continuing operations.



**Guardian Royal Exchange Assurance plc**

**Profit and Loss Account for the year ended 31 December 1997**

	1997 £'000	1996 £'000
<b>Non Technical Account</b>		
<b>Balance transferred from general business technical account</b>	22,762	(11,947)
Investment income <i>(note: 2a)</i>	277,788	317,071
Unrealised investment gains	55,394	35,754
Investment expenses and charges <i>(note: 2b)</i>	(116,618)	(109,195)
Investment return allocated to general business	(1,142)	(1,095)
<b>Corporate investment profit</b>	215,422	242,535
<b>Profit before taxation</b>	238,184	230,588
Taxation <i>(note: 4)</i>	(27,266)	(10,819)
<b>Profit after taxation</b>	210,918	219,769
Dividends	(305,827)	(170,000)
<b>Transfer (from)/to reserves <i>(note: 16)</i></b>	(94,909)	49,769

**Guardian Royal Exchange Assurance plc**  
**Balance Sheet as at 31 December 1997**

	1997 £'000	1996 £'000
<b>Assets</b>		
<b>Investments</b>		
Land and buildings <i>(note: 7)</i>	3,935	4,523
Shares in subsidiary undertakings <i>(note: 6)</i>	2,365,305	2,238,161
Shares in participating interests <i>(note: 7)</i>	87,806	83,571
Other financial investments <i>(note: 7)</i>	511,923	200,219
Deposits with ceding companies	7,815	6,603
	2,976,784	2,533,077
<b>Reinsurers' share of technical provisions</b>		
Provision for unearned premiums	3,530	4,556
Claims outstanding	43,750	50,488
	47,280	55,044
<b>Debtors</b>		
Direct insurance operations <i>(note: 8)</i>	8,045	8,418
Reinsurance operations		
Due from subsidiary undertakings	8,781	9,723
Other	9,028	10,543
Other debtors		
Due from subsidiary undertakings	55,064	154,452
Due from life funds	111	1,888
Due from fellow subsidiary undertakings	—	101
Other	2,974	10,369
	84,003	195,494
<b>Other assets</b>		
Tangible fixed assets <i>(note: 5)</i>	3,161	4,008
Cash	26,268	1,863
Deferred taxation <i>(note: 4)</i>	—	42,167
	29,429	48,038
<b>Prepayments and accrued income</b>		
Accrued interest and rent	1,264	1,655
Deferred acquisition costs	3,351	3,685
Other	1,645	1,002
	6,260	6,342
<b>Total assets</b>	3,143,756	2,837,995

**Guardian Royal Exchange Assurance plc**  
**Balance Sheet as at 31 December 1997**

	1997 £'000	1996 £'000
<b>Liabilities and Reserves</b>		
<b>Capital and reserves</b>		
Called up share capital ( <i>note: 15</i> )	52,236	52,236
Share premium	169,893	169,893
Revaluation reserve ( <i>note: 16</i> )	1,269,498	1,016,104
Retained profits ( <i>note: 16</i> )	654,937	794,536
	<hr/>	<hr/>
<b>Equity shareholders' funds</b>	2,146,564	2,032,769
<b>Technical provisions</b>		
Provision for unearned premiums	20,453	23,126
Claims outstanding	155,512	178,437
Other technical provisions	—	9,523
Equalisation provision	985	—
	<hr/>	<hr/>
	176,950	211,086
<b>Provisions for other risks and charges</b> ( <i>note: 9</i> )	33,048	33,386
<b>Deposits received from reinsurers</b>	1,121	805
<b>Creditors</b>		
Direct insurance operations	1,555	1,418
Reinsurance operations		
Due to subsidiary undertakings	9,695	9,130
Other	1,203	2,476
Amounts owed to credit institutions ( <i>note: 11</i> )	248,160	261,257
Other creditors ( <i>note: 10</i> )	520,104	280,311
	<hr/>	<hr/>
	780,717	554,592
<b>Accruals and deferred income</b>	5,356	5,357
<b>Total liabilities and reserves</b>	<hr/> <u>3,143,756</u>	<hr/> <u>2,837,995</u>

The accounts on pages 7 to 29\* were approved by the directors and signed on 23 April 1998.

J V H Robins,  
Director  
London, 23 April 1998

Note:

\* The page numbers refer to the page numbers of the accounts and not to the corresponding page numbers of this document, which are pages 24 to 39.

**Guardian Royal Exchange Assurance plc****Statement of Recognised Gains and Losses for the year ended 31 December 1997**

	1997 £'000	1996 £'000
Profit after taxation	210,918	219,769
Exchange profit on translation of hedging loans and overseas branches' net assets	14,650	26,176
Movement in net asset values of subsidiary undertakings ( <i>note: 6</i> )	194,054	(129,937)
	208,704	(103,761)
<b>Total recognised gains/(losses) for the year</b>	<b>419,622</b>	<b>116,008</b>

**Reconciliation of Movements in Shareholders' Funds for the year ended 31 December 1997**

	1997 £'000	1996 £'000
Profit for the financial year	210,918	219,769
Dividends	(305,827)	(170,000)
Profit and loss account transfer (from)/ to reserves	(94,909)	49,769
Other recognised gains and losses relating to the year (net)	208,704	(103,761)
	113,795	(53,992)
<b>Shareholders' funds at beginning of year</b>	<b>2,032,769</b>	<b>2,086,761</b>
<b>Shareholders' funds at end of year</b>	<b>2,146,564</b>	<b>2,032,769</b>

## **Guardian Royal Exchange Assurance plc**

### **Accounting Policies**

#### **I Basis of accounting**

- (a) The accounting policies adopted are in accordance with applicable United Kingdom accounting standards to the extent that they are appropriate to insurance companies and are in accordance with the guidance notes on accounting for insurance business issued by the Association of British Insurers.
- (b) The accounts are prepared in accordance with the requirements of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 ("the Regulations").

#### **II General business**

##### **(a) Premiums**

Premiums are accounted for in the period in which the risk commences. Unearned premiums relating to risks in future periods of account are calculated on a daily pro rata, or more conservative, basis.

##### **(b) Claims**

Provision is made for the estimated cost of claims outstanding at the end of the year, including those incurred but not reported at that date, and for the related costs of settlement. Claims incurred comprise amounts paid or provided in respect of claims occurring during the current year, together with the amount by which settlement or reassessment of claims from previous years differs from the provision at the beginning of the year.

##### **(c) Salvage and subrogation**

Estimated recoveries are included within debtors.

##### **(d) Deferred acquisition expenses**

Commission and other acquisition expenses relating to unearned premiums are deferred and charged in the accounting periods in which those premiums are earned.

##### **(e) Unexpired risks**

Provision is made for unexpired risks when, after taking account of investment income on insurance funds, it is anticipated that unearned premiums will be insufficient to meet the future claims and expenses of business in force at the end of the year. Classes of business which the directors consider are managed together are aggregated for this purpose.

##### **(f) Underwriting results**

Underwriting results are recognised principally on an annual accounting basis. For that part of the business where the directors consider that information of sufficient accuracy is not available to permit a result to be determined annually, the recognition of an underwriting result is deferred for a period of one year for proportional reinsurance and for a period of two years for non-proportional reinsurance, marine and aviation business. Anticipated underwriting deficits are provided for as soon as they are foreseen.

##### **(g) Investment return**

An investment return is included in the general business technical account on a basis which reflects the allocation of the underlying investment portfolio between general insurance operations and shareholders' funds. The allocation of the investment return to general business is based on the actual return for the period.

##### **(h) Claims equalisation reserve**

Equalisation provisions have been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.

#### **III Investments**

##### **(a) Investment income**

Investment income represents interest, rents and dividends receivable for the year including, where appropriate, related imputed tax credits.

##### **(b) Realised and unrealised investment gains and losses**

Realised investments gains and losses are calculated by reference to the net sales proceeds and the original purchase cost. For presentational purposes, as required by the Regulations, net realised gains are included in investment income and net realised losses in investment expenses and charges. Unrealised gains are recorded in the non-technical account.

## **Guardian Royal Exchange Assurance plc**

The movements in net asset value of shares in subsidiary undertakings are taken to revaluation reserve.

### **(c) *Valuation***

Investments are stated at market values for listed securities; open market valuations as appraised by the Group's professionally qualified staff for properties; bid price for unit trusts; redemption values less provisions for mortgages and loans; and directors' valuations for other investments. Investment properties are not depreciated, as the directors consider that they are held for investment purposes and to depreciate them would not give a true and fair view.

Shares in subsidiary undertakings and participating interests have been stated at net asset value as an approximation to market value.

### **(d) *Group occupied properties***

As required by the Companies Act, properties occupied by the Group are included as investments.

## **IV Foreign exchange**

Transactions denominated in foreign currencies are recorded at the rates ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at year end exchange rates. Exchange gains and losses are treated as part of the investment return in the profit and loss account, except for exchange gains and losses on hedging loans and overseas subsidiary undertakings which are taken to revaluation reserve.

Assets and liabilities of branches are translated into sterling at year end rates of exchange with profits and losses for the year translated at average rates. The resulting exchange gains and losses are taken to revaluation reserve.

## **V Taxation**

Provision is made for deferred taxation on unrealised gains and other timing differences where it is considered that a liability will arise in the foreseeable future.

## **VI Fixed assets and depreciation**

Major items of equipment are capitalised and depreciated over their expected useful lives after taking into account their anticipated residual value. All other items of equipment are written off in the year of purchase.

## **VII Staff pension costs**

The Group operates a number of pension schemes around the world to which contributions, determined in accordance with actuarial advice, are made by Group companies in respect of their employees. The charge for pension costs principally represents the costs of providing pension benefits to staff in respect of their service during the year. Pension costs in respect of overseas schemes are calculated in accordance with local regulations which approximate to United Kingdom accounting practices.

# Guardian Royal Exchange Assurance plc

## Notes on the Accounts

### 1. General insurance business

#### 1a. Geographical analysis

	Gross Written Premiums		Gross Direct Written Premiums		Balance on Technical Account		Gross Technical Provisions	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>Continuing operations</b>								
United Kingdom	21,614	23,852	—	—	14,996	5,754	25,965	36,175
Other EU	27,544	38,289	11,138	17,004	1,650	(5,008)	50,169	54,877
North America	14,135	20,981	(559)	3,752	3,542	(1,544)	44,596	49,863
Other	56,070	57,264	42,148	40,035	3,559	(11,149)	55,235	70,171
<b>Total</b>	<b>119,363</b>	<b>140,386</b>	<b>52,727</b>	<b>60,791</b>	<b>23,747</b>	<b>(11,947)</b>	<b>175,965</b>	<b>211,086</b>

An analysis of the profit before taxation and net assets by class of business has not been provided because, in the opinion of the directors, the above segmental analysis of the balance on technical account and gross technical provisions (respectively) is the most appropriate to the nature of the business. The directors consider that a segmental analysis of technical provisions, although a liability, provides a useful indication of the assets supporting the business.

The balance on technical account excludes the movement on equalisation reserves.

#### 1b. Class of business analysis

	Gross Written Premiums		Gross Earned Premiums		Gross Claims Incurred	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>Direct insurance</b>						
Motor – third party liability	5,843	7,252	5,931	6,681	4,835	4,499
other	9,125	8,757	8,977	9,178	5,496	5,210
Accident and health	4,458	4,203	4,803	4,023	956	689
Third party liability	4,250	4,084	4,209	3,537	2,234	715
Fire and other damage to property	20,576	23,208	21,117	21,779	11,683	11,915
Marine, aviation and transport	8,178	12,690	8,100	12,980	9,141	(296)
Other	297	597	390	581	(39)	225
	<b>52,727</b>	<b>60,791</b>	<b>53,527</b>	<b>58,759</b>	<b>34,306</b>	<b>22,957</b>
<b>Reinsurance acceptances</b>						
Motor – third party liability	2,088	1,928	2,088	1,928	2,126	3,634
other	121	689	121	689	490	2,375
Third party liability	7,510	8,015	7,510	8,015	1,049	15,584
Fire and other damage to property	54,473	66,348	54,473	66,348	19,902	39,378
Marine, aviation and transport	2,152	2,339	2,152	2,339	2,058	1,827
Other	292	276	292	276	(1,356)	223
	<b>66,636</b>	<b>79,595</b>	<b>66,636</b>	<b>79,595</b>	<b>24,269</b>	<b>63,021</b>
	<b>119,363</b>	<b>140,386</b>	<b>120,163</b>	<b>138,354</b>	<b>58,575</b>	<b>85,978</b>

## Guardian Royal Exchange Assurance plc

### 1b. Class of business analysis continued

	Gross Operating Expenses		Reinsurance Balance	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
<b>Direct insurance</b>				
Motor – third party liability	2,158	2,420	(44)	(342)
other	3,687	3,396	(171)	(43)
Accident and health	2,900	2,721	(413)	(193)
Third party liability	1,838	1,508	(279)	(144)
Fire and other damage to property	8,704	8,994	(995)	(1,313)
Marine, aviation and transport	3,529	3,624	4,671	(9,032)
Other	137	183	(89)	(59)
	<u>22,953</u>	<u>22,846</u>	<u>2,680</u>	<u>(11,126)</u>
<b>Reinsurance acceptances</b>				
Motor – third party liability	23	20	(194)	(125)
other	1	6	250	85
Third party liability	227	370	(237)	(1,861)
Fire and other damage to property	7,367	9,469	(10,855)	(18,844)
Marine, aviation and transport	19	22	236	(554)
Other	221	307	(52)	47
	<u>7,858</u>	<u>10,194</u>	<u>(10,852)</u>	<u>(21,252)</u>
	<u>30,811</u>	<u>33,040</u>	<u>(8,172)</u>	<u>(32,378)</u>

### 1c. Analysis of net operating expenses

	1997 £'000	1996 £'000
Acquisition costs	22,777	24,226
Decrease in deferred acquisition costs	52	369
Administrative expenses	4,917	4,115
	<u>27,746</u>	<u>28,710</u>

Commissions expense on direct insurance business amounted to £14,391,000 (1996: £15,981,000).

### 1d. Claims equalisation reserves

Equalisation provisions are established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. At 31 December 1997 claims equalisation reserves were £985,000 (1996: Nil).



## Guardian Royal Exchange Assurance plc

### 2. Corporate investment

#### 2a. Investment income

	1997 £'000	1996 £'000
Net loss from property	(2,349)	(1,084)
Income from subsidiary undertakings	264,748	308,260
Income from participating interests	1,451	2,296
Income from other investments	13,938	7,599
	<u>277,788</u>	<u>317,071</u>

Investment income includes £10,954,000 (1996: £2,110,000) in respect of listed investments.

#### 2b. Investment expenses and charges

	1997 £'000	1996 £'000
Interest expense (note: 3)	18,908	28,661
Investment management expenses	33,610	45,318
Realised investment losses	64,100	35,216
	<u>116,618</u>	<u>109,195</u>

Investment management expenses include a provision of Nil (1996: £15,000,000) in respect of obligations for unfunded pension liabilities.

Net realised investment losses include foreign exchange losses of £322,000 (1996: Investment losses include foreign exchange gains of £5,700,000).

Net realised investment losses include a loss of £70,687,000 on the sale of the Company's subsidiary undertaking, GRE Services Limited (formerly RAC Insurance Brokers Limited), to Guardian Royal Exchange plc. This amount was included as an unrealised loss within reserves at 31 December 1996.

### 3. Interest expense

	1997 £'000	1996 £'000
On loans repayable within 5 years otherwise than by instalment:		
Bank loans and overdrafts	15,156	11,445
Other loans	3,752	13,555
	<u>18,908</u>	<u>25,000</u>
On loans repayable after 5 years otherwise than by instalment:		
Bank loans and overdrafts	—	3,661
	<u>18,908</u>	<u>28,661</u>

## Guardian Royal Exchange Assurance plc

### 4. Taxation

The taxation (charge)/credit in the profit and loss account is based on the results appearing in the profit and loss account and is detailed below:

	1997 £'000	1996 £'000
Current taxation		
United Kingdom taxation:		
Corporation tax at a rate of 31.5% (1996: 33%)	(21,066)	(715)
Tax relating to franked investment income	(12,909)	(14,822)
Advance corporation tax written back/(write off)	24,378	(7,586)
	(9,597)	(23,123)
Overseas taxation	(835)	(1,977)
Double tax relief	34,330	7,328
Deferred tax	(51,164)	6,953
Taxation (charged) in profit and loss account	(27,266)	(10,819)
Balance sheet (provisions)/assets for deferred taxation represent:		
	1997 £'000	1996 £'000
Unrealised investment gains	(13,997)	(3,289)
Losses and surplus ACT available for offset	5,000	45,456
	(8,997)	42,167

Deferred taxation on unrealised gains has been provided where it is considered that a liability will arise in the foreseeable future, in accordance with accounting policy V. If taxation had been charged on the full amount of unrealised gains and other timing differences, the balance sheet provision would have been increased by approximately £25,231,476 (1996: £21,854,000).

Deferred assets have been recognised where it is considered that the reliefs afforded by losses and surplus ACT can be utilised against foreseeable investment realisations of the Company and its subsidiaries.

### 5. Tangible fixed assets

	Cost £'000	Depreciation £'000	Net Book Value £'000
At 1 January 1997	7,437	3,429	4,008
Purchases	606	—	606
Sales	(738)	(462)	(276)
Exchange movements	(198)	(97)	(101)
Provision for depreciation	—	1,076	(1,076)
At 31 December 1997	7,107	3,946	3,161

Tangible fixed assets consist principally of fixtures and fittings.

### 6. Shares in subsidiary undertakings

	1997 £'000	1996 £'000
(i) Net asset value 1 January 1997	2,238,161	2,435,607
Purchases	5,157	79,838
Sales at book value	(72,067)	(147,347)
Movement in net asset value	194,054	(129,937)
Net asset value 31 December 1997	2,365,305	2,238,161
(ii) As permitted by Section 228 of the Companies Act 1985, Group accounts have not been submitted, the Company being a wholly owned subsidiary of Guardian Royal Exchange plc which prepares Group accounts.		

## Guardian Royal Exchange Assurance plc

### 7. Investments

	1997 £'000	1996 £'000
<b>Land and buildings</b>		
Freehold property occupied by the Company	3,771	4,341
Other freehold	164	182
	<u>3,935</u>	<u>4,523</u>
<b>Shares in subsidiary undertakings</b>	2,365,305	2,238,161
<b>Shares in participating interests</b>	<u>87,806</u>	<u>83,571</u>
<b>Other financial investments</b>		
British government securities	1,693	315
Overseas government, municipal and public boards	3,117	3,800
Debenture and debenture stocks:		
Listed	1,385	—
Non-listed	2,424	3,435
Ordinary stocks and shares:		
Listed	444,456	145,425
Non-listed	2,218	2,306
Loans secured by mortgages	70	9
Deposits with credit institutions	56,560	44,929
	<u>511,923</u>	<u>200,219</u>
<b>Deposits with ceding companies</b>	<u>7,815</u>	<u>6,603</u>
<b>Total investments</b>	<u>2,976,784</u>	<u>2,533,077</u>

Investments are stated at current value. The cost price of investments held at 31 December 1997 was £1,717,129,000 (1996: £1,399,200,000). Investments totalling £441,093,000 (1996: £132,276,000) are listed on the London Stock Exchange.

The Company owns one tenth or more of the nominal value of issued equity shares in a number of companies. These investments consist principally of holdings in Guardian Royal Exchange (Malaysia) Sendirian Berhad (48 per cent.), incorporated in Malaysia, and Le Foyer Finance S.A. (40 per cent.), incorporated in Luxembourg. The principal activity is the conduct of insurance business.

### 8. Debts in respect of direct insurance operations

	1997 £'000	1996 £'000
Due from policyholders	376	56
Due from intermediaries	7,669	8,362
	<u>8,045</u>	<u>8,418</u>

### 9. Analysis of provisions for other risks and charges

	1997 £'000	1996 £'000
Staff pensions	13,605	15,000
Other provisions	10,446	18,386
Deferred taxation	8,997	—
	<u>33,048</u>	<u>33,386</u>

### 10. Other creditors

	1997 £'000	1996 £'000
Unpaid interim dividend	250,000	31,804
Taxation	55,377	31,531
Other creditors	10,936	14,765
Amount due to parent company	82,074	86,151
Amount due to subsidiary undertakings	110,977	109,745
Amount due to fellow subsidiary undertakings	10,740	6,315
	<u>520,104</u>	<u>280,311</u>

## Guardian Royal Exchange Assurance plc

### 11. Loans – unsecured

	1997 £'000	1996 £'000
Amounts owed to credit institutions, repayable otherwise than by instalments:		
Within one year or on demand	16,162	21,366
Between one and two years	21,277	—
Between two and five years	210,721	239,891
	<u>248,160</u>	<u>261,257</u>

### 12. Auditors' remuneration

The remuneration of the auditors amounted to £115,000 (1996: £115,000). Remuneration for non-audit services provided by the Company's auditors to the Company amounted to £307,100 (1996: £687,000).

### 13. Capital expenditure commitments

At 31 December 1997 no capital commitments existed (1996: Nil).

### 14. Staff pension costs

The principal pension scheme within the Group covers employees in the United Kingdom and comprises defined benefit and defined contribution sections. The funds of the scheme are separate from the Group and are administered by trustees. The total pension cost attributable to this scheme for the year was £27 million (1996: £31 million) including £13 million (1996: £16 million) attributable to early retirement costs. It has been assumed that the scheme will remain open to new entrants. From April 1997, new staff join a money purchase arrangement for the period of service up to age 30 and then have the option of joining the existing defined benefit scheme for service thereafter.

Contributions are assessed by the actuary to the fund (who is a Group employee) using the Projected Unit method with a five-year control period. The last full valuation was carried out as at 31 March 1997. Augmentations on early retirement and supplementary improvements to the level of protection of pensions in payment are funded by cash injections to the fund.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in salaries and pensions. It was assumed that the investment return would be 8 per cent. per annum, dividends would grow by 4.5 per cent. per annum, salaries would increase by 4.5 per cent. per annum plus shaped promotional scale (which is on average equivalent to 2 per cent. per annum) and that present and future pensions would increase by 4 per cent. per annum. At the 31 March 1997 valuation, the market value of assets was £992 million and the actuarial value of assets represented 118 per cent. of the value accrued liabilities on a projected final salary basis. The contribution rate was reduced from 14 per cent. to 5 per cent. on pensionable salaries with effect from 1 April 1997. The employer-defined contribution rate for new employees under age 30 is 5 per cent. of pensionable salary.

In addition the analysis of provisions for other risks and charges shown in note 9 includes an amount of £13,605,000 (1996: £15,000,000) in respect of obligations for unfunded pension liabilities.

### 15. Share capital

	1997		1996	
	Authorised £'000	Paid-up £'000	Authorised £'000	Paid-up £'000
<b>Authorised:</b>				
300,000,000 ordinary shares of 25p each	75,000		75,000	
3,305,247 4.9% (formerly 7%) cumulative redeemable preference shares of £1 each	3,305		3,305	
<b>Issued</b>				
195,725,542 ordinary shares of 25p each		48,931		48,931
Capital redemption reserve		3,305		3,305
	<u>78,305</u>	<u>52,236</u>	<u>78,305</u>	<u>52,236</u>

## Guardian Royal Exchange Assurance plc

### 16. Reserves

	Retained Profits £'000	Revaluation Reserve £'000	Total £'000
Balance at 1 January 1997	794,536	1,016,104	1,810,640
Transfer (to)/from profit and loss account	(139,599)	44,690	(94,909)
Exchange and other movements	—	14,650	14,650
Movement in net asset values of subsidiary undertakings (note: 6)	—	194,054	194,054
Balance at 31 December 1997	654,937	1,269,498	1,924,435

### 17. Contingent liabilities

With the approval of the Department of Trade and Industry, the Company, and certain of its fellow subsidiary undertakings have entered into a mutual guarantee whereby each company guarantees payment of all liabilities incurred by the others in respect of general insurance business.

### 18. Directors' emoluments

All the directors of the Company are also directors of the ultimate parent company, Guardian Royal Exchange plc, and their emoluments, which relate to their services to the Group as a whole, are disclosed in the accounts of that company.

The directors have received no remuneration or other emoluments in respect of their services to the Company (1996 – Nil).

### 19. Transactions involving directors and others

In accordance with Section 232 of Schedule 6 of the Companies Act 1985 the information required regarding loans and other transactions is set out below.

Borrower	Loan outstanding		Annual Rate of Interest
	1 January 1997	31 December 1997	
Miss C.M. Burton	£15,001	Nil	8.00% to 8.25%
J. Sinclair	£37,000	Nil	4.25% to 6.16%

The loans to directors and connected persons were made on terms at or above those ordinarily applicable to staff housing loans at varying rates of interest.

### 20. Ultimate parent

The directors regard Guardian Royal Exchange plc, registered in England, as being the ultimate parent company. Copies of Guardian Royal Exchange plc Group accounts can be obtained from Royal Exchange, London EC3V 3LS.

### 21. Related Parties

As the Company is a wholly owned subsidiary it has taken advantage of the exemption granted under Financial Reporting Standard 8 (Related Party Disclosures) where subsidiary undertakings do not have to disclose transactions with Group companies qualifying as related parties provided that consolidated financial statements are publicly available.

## Guardian Royal Exchange Assurance plc

### 22. Principal subsidiary undertakings

#### Insurance Companies

	Country of Incorporation or Registration	Holding of ordinary shares by:	
		Parent	Subsidiary
Guardian Assurance plc	England	100%	
The Royal Exchange Assurance	England	100%	
Atlas Assurance Company Limited	England		100%
Caledonian Insurance Company	Scotland	100%	
Guardian Linked Life Assurance Limited	England		100%
Guardian Health Limited	England		100%
Guardian Pensions Management Limited	England		100%
Guardian Insurance Limited	England	100%	
Guardian Direct Limited	England	100%	
Orion Personal Insurances Limited	England		100%
Motor Union Seguros SA	Brazil		99%
Guardian Insurance Company of Canada	Canada		100%
Guardian Risques SA	France		100%
Guardian Vie SA	France		100%
Albingia Versicherungs-Aktiengesellschaft (note b)	Germany		86%
Albingia Lebensversicherungs-Aktiengesellschaft (note b)	Germany		86%
Union Insurance Society of Canton Limited	Hong Kong	100%	
Union Insurance Society of Hong Kong Limited	Hong Kong		100%
PT Asuransi Guardian Royal Exchange Indonesia	Indonesia		64%
GRE Life Ireland Limited	Ireland		100%
Guardian PMPA Insurance Limited	Ireland		100%
Guardian Verzekering Maatschappij NV	Netherlands		100%
Guardian Assurance Limited	New Zealand		100%
Guardian National Insurance Company Limited	South Africa		51%
Albany Insurance Company	USA		100%
American Ambassador Casualty Company	USA		100%
Atlas Assurance Company of America	USA		100%
Globe American Casualty Company	USA		100%
Mid-American Fire & Casualty Co.	USA		100%
The Midwestern Indemnity Company	USA		100%
Tower Insurance Company Inc.	USA		100%

#### Other Companies

Compass Securities Limited	England		100%
Guardian Royal Exchange Financial Management Limited	England		100%
Guardian Unit Managers Limited	England	100%	
The Metropolitan Trust plc	England		100%
GRE Financial Limited	Canada		100%
Guardian Royal Exchange Services Limited	England	100%	
Guardian France SA	France		100%
Guardian Royal Exchange Holdings (Ireland) Limited	Ireland		100%
Guardian Royal Exchange Continental Europe Holdings GmbH	Germany		100%
GRE/PMPA Group Limited	Ireland		100%
GRE - USA Corporation	USA		100%
The National Corporation	USA		100%
Talbot, Bird & Co. Inc.	USA		100%
Guardian Royal Exchange International (Holdings) BV	Netherlands	100%	
GRE Investments (Guernsey) Limited	Guernsey		100%

#### Notes:

- The country of principal operation for each of the companies is the country of incorporation with the exception of The Royal Exchange Assurance and Caledonian Insurance Company whose principal countries of operation are Portugal and the Republic of Ireland respectively.
- The Company owns 86 per cent. of the ordinary shares of Albingia Versicherungs-Aktiengesellschaft and 74 per cent. of the participating preference shares. The interest of the Company in the net assets of Albingia at 31 December 1997 was 83 per cent.
- Information regarding other subsidiaries is submitted with the annual return.

**Guardian Royal Exchange Assurance plc****23. Staff numbers and cost**

	1997 £'000	1996 £'000
Wages and salaries	9,403	8,220
Social security costs	722	862
Other pension costs	1,471	16,537
	<u>11,596</u>	<u>25,619</u>

The average weekly number of employees was comprised as follows:

United Kingdom investment and corporate centre	125	126
Asia operations	97	93
	<u>222</u>	<u>219</u>

## REPORT OF THE AUDITORS OF THE GUARANTOR

### Auditors' Report to the Shareholders of Guardian Royal Exchange Assurance plc

We have audited the financial statements on pages 7 to 29\* which have been prepared under the accounting policies set out on pages 12 to 14\*.

### Respective responsibilities of directors and auditors

As described on page 5 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 1997, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in the accounting policies and note 1d to the accounts.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
23 April 1998

Southwark Towers  
32 Bridge Street  
London SE1 9SY

Note:

\* The page numbers refer to the page numbers of the accounts and not to the relevant page numbers of this document, which are pages 24 to 39 and 29 to 30 respectively.



## UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on the Issuer's understanding of current law and practice in the United Kingdom relating to the deduction from interest on the Bonds for or on account of tax. It is a general guide only to the United Kingdom tax position of investors who are absolute beneficial owners of their Bonds and Coupons and should be treated with appropriate caution. Prospective Bondholders 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.

1. The Bonds will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 (the "Act") as long as they continue to be in bearer form and are listed on a "recognised stock exchange" within the meaning of section 841 of the Act. The London Stock Exchange is currently so designated. Accordingly, payments of interest on the Bonds may be made without withholding on account of United Kingdom income tax:

- (a) where payment is made by or through an overseas paying agent; or
- (b) where the beneficial owner of the Bonds and the related Coupons is not resident in the United Kingdom; or
- (c) where the Bonds are held in a "recognised clearing system". Euroclear and Cedel Bank have each been designated as a "recognised clearing system" for this purpose;

and, where applicable, any other conditions imposed by regulations made under the Act (as amended by the Finance Act 1996) have been satisfied.

In all other cases an amount must be withheld on account of income tax at the lower rate (currently 20 per cent.) subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

2. If the Bonds are in bearer form and are listed on a recognised stock exchange any person in the United Kingdom who, in the course of a trade or profession:
  - (a) acts as a custodian of the Bonds and receives interest on the Bonds or directs that interest on the Bonds be paid to another person or consents to such payment; or
  - (b) collects or secures payment of or receives interest on the Bonds for a Bondholder or a Couponholder, (except by means of clearing a cheque or arranging for the clearing of a cheque) will be required to withhold on account of income tax at the lower rate (currently 20 per cent.) unless:
    - (i) the relevant Bonds are held in a "recognised clearing system" and the collecting agent either:
      - (A) pays or accounts for the interest directly or indirectly to the "recognised clearing system"; or
      - (B) is acting as depositary in respect of the relevant Bonds; or
    - (ii) the person beneficially entitled to the interest is not resident in the United Kingdom and beneficially owns the relevant Bonds;

and in each case any other conditions imposed by regulations under the Act are satisfied.

There are also other exemptions for certain types of Bondholders in certain circumstances (e.g. pension funds, charities, non-resident trusts, local authorities, health service bodies etc.).

## SUBSCRIPTION AND SALE

Midland Bank plc, NatWest Capital Markets Limited (as agent for National Westminster Bank Plc), ABN AMRO Bank N.V., Barclays Bank PLC, Commerzbank Aktiengesellschaft and Deutsche Bank AG London (together, the "Managers") have, pursuant to a Subscription Agreement dated 19 August 1998 (the "Subscription Agreement"), jointly and severally agreed with the Issuer to subscribe and pay for the Bonds at the issue price of 98.861 per cent. of their principal amount less a combined selling, management and underwriting commission of 0.625 per cent. of such principal amount of the Bonds but plus accrued interest, if any. The Issuer has agreed to pay the Managers up to £25,000 in reimbursement of certain of their expenses in connection with the issue of the Bonds. The Subscription Agreement may, in certain circumstances, be terminated by the Managers prior to the issue of the Bonds. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the subscription of the Bonds as more particularly described in the Subscription Agreement.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

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

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

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

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

Save for having obtained approval of this document by the London Stock Exchange pursuant to listing rules made under Part IV of the Act and for having delivered copies thereof to the Registrar of Companies in England and Wales, no action has been or will be taken by the Issuer, the Guarantor or the Managers that would permit a public offering of the Bonds or distribution of this document in any jurisdiction where, or in any circumstances in which, action for these purposes is required. This document does not constitute an offer and may not be used for the purposes of any offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Neither the Issuer, the Guarantor nor any of the Managers represent that the Bonds may at any time lawfully be sold in or from any jurisdiction in compliance with any applicable registration requirements or pursuant to an exception available thereunder or assumes any responsibility for facilitating such sales.

## GENERAL INFORMATION

1. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the third business day after the day of the transaction. It is expected that such listing will be granted on or about 19 August 1998 subject only to the issue of the Temporary Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.
2. Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole, or of the Guarantor and its subsidiaries, taken as a whole, nor has there been any material adverse change in the prospects or financial position of the Issuer and its subsidiaries, taken as a whole, or of the Guarantor and its subsidiaries, taken as a whole, since 31 December 1997.
3. Neither the Issuer or any of its subsidiaries nor the Guarantor or any of its subsidiaries is engaged in legal or arbitration proceedings which may have, or have had during the previous 12 months, a significant effect on the financial position of the Issuer and its subsidiaries, taken as a whole, or the Guarantor and its subsidiaries, taken as a whole, nor so far as the Issuer or the Guarantor is aware are any such proceedings pending or threatened.
4. Price Waterhouse, Chartered Accountants, of 1 Embankment Place, London WC2N 6NN has audited and given unqualified reports on the Issuer's annual accounts for each of the three financial years ended 31 December 1997 and the Guarantor's annual accounts for each of the three financial years ended 31 December 1997. Price Waterhouse and Coopers & Lybrand merged on 1 July 1998 to form PricewaterhouseCoopers.

Price Waterhouse has given and not withdrawn its written consent to the inclusion herein of its report on the Guarantor in the form and context in which it appears and has authorised the contents of that part of the Offering Circular for the purposes of Section 152(1)(e) of the Financial Services Act 1986.

5. The Bonds have been accepted for clearance through Euroclear and Cedel Bank. The ISIN number is XS0089773484 and the Common Code is 8977348.
6. Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB for 14 days from the date of this document:
  - (a) the Memorandum and Articles of Association of the Issuer and of the Guarantor;
  - (b) the published audited consolidated accounts of the Issuer for the two financial years ended 31 December 1997 and the published audited accounts of the Guarantor for the two financial years ended 31 December 1997;
  - (c) the unaudited consolidated interim report of the Issuer for the six months ended 30 June 1998;
  - (d) the draft, subject to modification, of the Trust Deed (as defined in the Terms and Conditions of the Bonds); and
  - (e) the Subscription Agreement and the draft, subject to modification, of the Agency Agreement.

**REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR**

Royal Exchange  
London EC3V 3LS

1132903

**AUDITORS OF THE ISSUER AND THE GUARANTOR**

**PricewaterhouseCoopers**

1 Embankment Place  
London WC2N 6NN

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

Princes House  
95 Gresham Street  
London EC2V 7LY

**PRINCIPAL PAYING AGENT**

**Midland Bank plc**

Mariner House  
Pepys Street  
London EC3N 4DA

**PAYING AGENT**

**UBS AG**

Bahnhofstrasse 45  
CH-8098 Zurich

**LEGAL ADVISERS**

*To the Issuer and the Guarantor*

**Slaughter and May**

35 Basinghall Street  
London EC2V 5DB

*To the Managers and the Trustee*

**Allen & Overy**

One New Change  
London EC4M 9QQ

**LISTING AGENT**

**Midland Bank plc**

Thames Exchange  
10 Queen Street Place  
London EC4R 1BQ