



London Electricity plc ✓

(Incorporated in England and Wales with limited liability under registered number 2366852) ✓

£100,000,000
8⁵/₈ per cent. Bonds due 2005
Issue price 100.896 per cent.

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

The Bonds will be issued in bearer form in the denominations of £1,000, £10,000 and £100,000.

Interest will be payable annually in arrear on 26th October in each year and will be at a rate of 8⁵/₈ per cent. per annum, the first payment to be made on 26th October, 1996, as described under "Terms and Conditions of the Bonds—Interest". Payments of principal of, and interest on, the Bonds will be made without withholding or deduction of United Kingdom taxes, as described under "Terms and Conditions of the Bonds—Taxation".

The Bonds mature on 26th October, 2005 and may not be redeemed prior thereto, except as mentioned below. The Bonds are subject to redemption in whole (but not in part) at their principal amount together with accrued interest, at the option of the Issuer, in the event of certain changes affecting taxes of the United Kingdom. See "Terms and Conditions of the Bonds—Redemption and Purchase". Upon the occurrence of certain events, as described under "Terms and Conditions of the Bonds—Redemption at the option of Bondholders", the holders of the Bonds may require the Issuer to redeem or, at its option, purchase (or procure the purchase of) the Bonds at their principal amount (plus accrued interest, if any).

The Bonds will initially be represented by a temporary global Bond without interest coupons (the "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") on or about 26th October, 1995 (the "Closing Date") and will be exchangeable for definitive Bonds in bearer form with interest coupons attached on or after 5th December, 1995 upon certification as to non-U.S. beneficial ownership.

HSBC Markets

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

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

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

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

In this Offering Circular, references to "pounds", "sterling", "pence" or "p" are to the lawful currency of the United Kingdom. References in this Offering Circular to "kW" and "MW" are to kilowatts and megawatts respectively.

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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 Appointed Representative of Midland Bank plc.

TERMS AND CONDITIONS OF THE BONDS

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

The £100,000,000 8½ per cent. Bonds due 2005 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of London Electricity plc (the "Issuer") are constituted by a supplemental trust deed (the "Supplemental Trust Deed") dated 26th October, 1995 (the "Closing Date") supplemental to the trust deed (the "Principal Trust Deed", and together with the Supplemental Trust Deed, the "Trust Deed") dated 28th April, 1993 between the Issuer and Bankers Trust Company Limited (the "Trustee", which expression shall include any successor) as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 3rd October, 1995 and by a resolution of a duly authorised committee of the board of directors of the Issuer passed on 19th October, 1995. The Bonds are, on issue, listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"). The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and of an agency agreement dated 26th October, 1995 (the "Paying Agency Agreement") made between the Issuer, Bankers Trust Company as principal paying agent (the "Principal Paying Agent", which expression shall include any successor), the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression shall include any additional or successor paying agents) and the Trustee are available for inspection during normal business hours by the Bondholders and the holders of the interest coupons appertaining to the Bonds (respectively, the "Couponholders" and the "Coupons") at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at 1 Appold Street, Broadgate, London EC2A 2HE, and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement.

1. Form, Denominations and Title

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

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

2. Status

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

3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) the Issuer will ensure that no Relevant Indebtedness (as defined below) of the Issuer or any Relevant Subsidiary (as defined in Condition 7) or of any other person and no guarantee by the Issuer or any Relevant Subsidiary of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a "Security Interest") upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer or any Relevant Subsidiary unless the Issuer shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:—

- (a) all amounts payable by it under the Bonds, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the Security Interest to the satisfaction of the Trustee; or
- (b) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds,

the Coupons and the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that the Issuer or any Relevant Subsidiary may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer or any Relevant Subsidiary in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Bonds, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness has an initial maturity falling after 26th October, 2005 and is of a maximum aggregate amount outstanding at any time not exceeding the greater of £200,000,000 and 20 per cent. of the Capital and Reserves (as defined below) or (2) such Security Interest is provided in respect of a company becoming a Subsidiary of the Issuer after 20th October, 1995 and where such Security Interest existed at the time that company becomes a Subsidiary (as defined below) of the Issuer (provided that such Security Interest was not created in contemplation of such acquisition and the principal amount secured at the time of such acquisition is not subsequently increased).

For the purposes of these Terms and Conditions:—

“Capital and Reserves” means the aggregate of:—

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

all as shown in the then latest audited consolidated balance sheet and profit and loss account of the Group prepared in accordance with the historical cost convention (as modified by the revaluation of certain fixed assets) for the purposes of the Companies Act 1985, but adjusted as may be necessary in respect of any variation in the paid up share capital or share premium account of the Issuer since the date of that balance sheet and further adjusted as may be necessary to reflect any change since the date of that balance sheet in the Subsidiary Undertakings comprising the Group and/or as the Auditors (as defined in the Trust Deed) may consider appropriate.

A report by the Auditors as to the amount of the Capital and Reserves at any given time shall, in the absence of manifest error, be conclusive and binding on all parties;

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

“Relevant Indebtedness” means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market, but shall in any event not include Project Finance Indebtedness (as defined in Condition 10);

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

“Subsidiary” means a subsidiary within the meaning of Section 736 of the Companies Act 1985; and any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

4. Interest

The Bonds bear interest from (and including) the Closing Date at the rate of 8½ per cent. per annum, payable annually in arrear on 26th October in each year (each an “Interest Payment Date”), the first such payment to be made on 26th October, 1996 and to amount to a full year’s interest. All amounts of interest will be rounded upwards, if necessary, to the nearest penny.

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

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360 day year consisting of twelve months of 30 days each.

5. Payments

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

Payments will be made at the specified office of any Paying Agent, at the option of the holder, by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London, subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

Each Bond should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, 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 9), or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

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

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

- (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.

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, 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 will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

6. Redemption and Purchase

- (a) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 26th October, 2005.
- (b) If, as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective after 20th October, 1995, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (and such amendment or change has been evidenced by the delivery by the Issuer to the Trustee (who shall, in the absence of manifest error, accept such certificate and opinion as sufficient evidence thereof) of (i) a certificate signed by

two directors of the Issuer on behalf of the Issuer stating that such amendment or change has occurred (irrespective of whether such amendment or change is then effective), describing the facts leading thereto and stating that such obligation cannot be avoided by the Issuer taking reasonable measures available to it and (ii) an opinion in a form satisfactory to the Trustee of independent legal advisers of recognised standing to whom the Trustee shall have no reasonable objection to the effect that such amendment or change has occurred (irrespective of whether such amendment or change is then effective)), the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds at their principal amount together with interest (if any) accrued to the date of redemption, provided that no notice of redemption shall be given earlier than 90 days before the earliest date on which the Issuer would be required to pay such additional amounts were a payment in respect of the Bonds then due.

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

- (c) The Issuer or any of its Subsidiaries may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.
- (d) All Bonds which are redeemed by the Issuer will forthwith be cancelled (together with all relative unmatured Coupons attached to the Bonds or surrendered with the Bonds) and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries may be held or reissued or resold or surrendered for cancellation.

7. Redemption at the option of Bondholders

- (a) (i) If, at any time while any of the Bonds remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below) an independent financial adviser (as defined below) shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Bondholders, the following provisions of this Condition 7 shall cease to have any further effect in relation to such Restructuring Event.
- (ii) If, at any time while any of the Bonds remains outstanding, a Restructuring Event occurs and (subject to Condition 7(a)(i)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities (as defined below), a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Bondholders (a "Negative Certification"),

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

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Bonds or other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3 or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interests of the Bondholders

shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders. For the purposes of this Condition 7, an "independent financial adviser" means a financial adviser appointed by the Issuer and approved by the Trustee (such approval not to be unreasonably withheld or delayed) or, if the Issuer shall not have appointed such an adviser within 21 days after becoming aware of the occurrence of such Restructuring Event and the Trustee is indemnified to its satisfaction against the costs of such adviser, appointed by the Trustee following consultation with the Issuer.

- (b) Promptly upon the Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in principal amount of the Bonds then outstanding shall, give notice (a "Put Event Notice") to the Bondholders in accordance with Condition 14 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (c) To exercise the Put Option, the holder of a Bond must deliver such Bond to the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5) in London and in the place of such specified office falling within the period (the "Put Period") of 45 days after that on which a Put Event Notice is given, accompanied by a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "Put Notice") and in which the holder may specify a bank account complying with the requirements of Condition 5 to which payment is to be made under this Condition 7. Each Bond should be delivered together with all Coupons appertaining thereto maturing after the day (the "Put Date") being the fifteenth day after the date of expiry of the Put Period, failing which an amount equal to the face value of any such missing Coupon will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner provided in Condition 5 against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bearer Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which such Coupon would have become due, but not thereafter. The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, on the Put Date by transfer to that bank account and, in every other case, on or after the Put Date in each case against presentation and surrender or (as the case may be) endorsement of such receipt at any specified office of any Paying Agent, subject in any such case as provided in Condition 5. A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 9, 10, 11, 13 and 15 and for certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 7 shall be treated as if they were Bonds. The Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the applicable Put Date unless previously redeemed or purchased.
- (d) For the purposes of these Terms and Conditions:—
 - (i) A "Negative Rating Event" shall be deemed to have occurred if (A) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds or any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more from a Rating Agency or (B) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).
 - (ii) "Pooling and Settlement Agreement" means the agreement dated 30th March, 1990 (as amended and restated at 22nd April, 1994) made by the Issuer with The National Grid Company plc and others setting out the rules and procedures for the operation of an electricity trading pool and of a settlement system and, while the same has effect, the Initial Settlement Agreement also dated 30th March, 1990 and made between the same parties, in each case as in force on 20th October, 1995.
 - (iii) A "Put Event" occurs on the date of the last to occur of (aa) a Restructuring Event, (bb) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (cc) the relevant Negative Certification.

- (iv) "Rating Agency" means Standard & Poor's or any of its Subsidiaries and their successors or Moody's Investors Service, Inc. or any of its Subsidiaries and their successors or any rating agency substituted for either of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed).
- (v) A "Rating Downgrade" shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category.
- (vi) "Rated Securities" means the Bonds, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an initial maturity of five years or more which is rated by a Rating Agency.
- (vii) "Restructuring Event" means the occurrence of any one or more of the following events:—
 - (A) (aa) the Secretary of State for Trade and Industry (or any successor) giving the Issuer or any Relevant Subsidiary written notice of revocation of a PES Licence provided that the giving of notice pursuant to paragraph 3 of Part 1 of the PES Licence in effect on 20th October, 1995 or any similar provision in any other PES Licence shall not be deemed to constitute the revocation of the relevant PES Licence or (bb) the Issuer or any Relevant Subsidiary agreeing in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of a PES Licence or (cc) any legislation (whether primary or subordinate) being enacted terminating or revoking a PES Licence, except in any such case in circumstances where (x) a licence or licences on substantially no less favourable terms is or are granted to the Issuer and/or to one or more Relevant Subsidiaries and/or to one or more wholly-owned Subsidiaries of the Issuer or a Relevant Subsidiary and (y) in the case of the grant of a licence or licences to any wholly-owned Subsidiary of the Issuer or a Relevant Subsidiary (other than in circumstances where the licence or all such licences so granted to such Subsidiary is or are an Excluded Licence or Excluded Licences), such Subsidiary at the time of such grant either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds (jointly and severally where appropriate) in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes a primary obligor under the Bonds (jointly and severally where appropriate) in accordance with Condition 12; or
 - (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions of a PES Licence on or after 20th October, 1995 unless two directors of the Issuer have certified in good faith to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Issuer;
 - (C) (aa) the Pooling and Settlement Agreement being terminated under Clause 67.4 thereof and not replaced by one or more agreements, commercial arrangements or open market mechanisms or frameworks, in each case on terms which two directors of the Issuer certify in good faith to the Trustee to be not materially less favourable to the business of the Issuer or (bb) the Issuer being given notice pursuant to Clause 67.3.2 of the Pooling and Settlement Agreement requiring it to cease to be a party thereto or (cc) any notice declaring an event of default (as defined in the Pooling and Settlement Agreement) being given to the Issuer under Clause 66.1.1 or 66.2 thereof and such default remaining unremedied or unwaived or (dd) any modification (other than a modification which is of a formal, minor or technical nature) being made to the Pooling and Settlement Agreement on or after 20th October, 1995 or (ee) the Issuer ceasing to be a party to the Pooling and Settlement Agreement for any reason (other than pursuant to (bb) and (cc) above), except where a licence or licences is or are granted to one or more Subsidiaries as contemplated by sub-paragraph (d)(vii)(A) above and at or about the same time all rights and obligations of the Issuer pursuant to the Pooling and Settlement Agreement which are attributable to such licence(s) are assigned and transferred to such Subsidiary or Subsidiaries in such manner

as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or such Subsidiary or Subsidiaries enters or enter into one or more agreements, commercial arrangements or open market mechanisms or frameworks in relation to such licence(s) which two directors of the Issuer certify to be not materially less favourable to the business of the Issuer, unless, in the case of (dd), two directors of the Issuer have certified in good faith to the Trustee that any such modification has not had and will not have a materially adverse effect on the amount or nature of any payment made or to be made by or to the Issuer pursuant to the Pooling and Settlement Agreement or a materially adverse effect on the financial rights or obligations of the Issuer under the Pooling and Settlement Agreement or a materially adverse effect on the business of the Issuer, provided that any such modification shall, to the extent it grants or confers powers or discretions on the Director General of Electricity Supply (or any successor) under or in respect of the Pooling and Settlement Agreement, be deemed not to have a materially adverse effect as aforesaid, but for the avoidance of doubt any modification to the Pooling and Settlement Agreement made by the Director General of Electricity Supply (or any successor) by virtue of or pursuant to any such powers or discretions and which otherwise would have a materially adverse effect as provided above shall not by virtue of this sub-paragraph be deemed not to have such an effect; or

- (D) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Trade and Industry (or any successor) and/or the Director General of Electricity Supply (or any successor) under Section 3 of the Electricity Act 1989 as in force on 20th October, 1995 unless two directors of the Issuer have certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer.

(viii) "Restructuring Period" means:—

- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
 - (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date on which the Issuer shall seek to obtain a rating pursuant to Condition 7(d)(i) prior to the expiry of the 14 days referred to in the definition of Negative Rating Event and (bb) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event.
- (ix) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 7 does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
 - (x) "PES Licence" means the public electricity supply licence granted by the Secretary of State for Energy to the Issuer under the Electricity Act 1989 in relation to its Authorised Area (but for the avoidance of doubt excluding any second tier licence) as in effect on 20th October, 1995 and, from time to time, any other licence or licences relating to the distribution and/or supply of electricity granted to the Issuer and/or any Relevant Subsidiary, excluding in any such case an Excluded Licence.
 - (xi) "Authorised Area" means the authorised area of the Issuer as provided in the PES Licence in effect on 20th October, 1995.
 - (xii) "Excluded Licence" means a licence granting the right to supply electricity in or in any part of the Authorised Area in circumstances where another entity may be entitled to supply electricity on a like or similar basis in the relevant area and/or granting the right to supply and/or distribute electricity solely outside the Authorised Area.
 - (xiii) "Relevant Subsidiary" means a wholly-owned Subsidiary of the Issuer or of another Relevant Subsidiary which has granted a guarantee in respect of, or has become a primary obligor under, the Bonds as contemplated in Condition 7(d)(vii)(A).

The Trust Deed provides that the Trustee is under no obligation to ascertain whether a Restructuring Event, a Negative Rating Event or any event which could lead to the occurrence of or could constitute a Restructuring Event has occurred and until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred. The Trust Deed also provides that in determining whether or not a Restructuring Event has occurred, the Trustee may rely solely on an opinion given in a certificate signed by two directors of the Issuer.

8. Taxation

All payments in respect of the Bonds by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of the United Kingdom, or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:—

- (a) to, or to a third party on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (b) where the Coupon is presented for payment in the United Kingdom; or
- (c) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days, assuming, whether or not such is in fact the case, such last day to be a Presentation Date; or
- (d) to, or to a third party on behalf of, a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority.

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

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

9. Prescription

Bonds and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 5.

10. Events of Default

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

- (a) if default is made for a period of 14 days or more in the payment of any principal or the purchase price due in respect of any Bond pursuant to Condition 7 or 21 days or more in the payment of any interest due in respect of the Bonds or any of them; or

- (b) if the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 60 days (or such longer period as the Trustee may in its absolute discretion permit) next following the service by the Trustee on the Issuer requiring the same to be remedied; or
- (c) if (i) any other indebtedness for borrowed money of the Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of an event of default or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (iii) the Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (as determined by the Trustee) or two per cent. of the Capital and Reserves, and for the purposes of this sub-paragraph (c), "indebtedness for borrowed money" shall exclude Project Finance Indebtedness; or
- (d) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (e) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (f) if the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer or such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group (other than an Excluded Subsidiary) or to a transferee which is, or immediately upon such transfer becomes, a Principal Subsidiary or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Issuer or a Principal Subsidiary on an arm's length basis or (iii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders, provided that if the Issuer or any Relevant Subsidiary shall cease to hold or shall transfer a PES Licence (other than where such PES Licence is revoked, terminated or surrendered in the circumstances envisaged by Condition 7(d)(vii)(A)(aa), (bb) or (cc) and such revocation, termination or surrender does not constitute a Restructuring Event pursuant to Condition 7(d)(vii)(A)) it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and neither of exceptions (i) and (ii) shall apply) unless the transferee assumes all the Issuer's obligations under the Bonds and the Trust Deed as primary obligor or gives a guarantee in form and substance acceptable to the Trustee in respect of the obligations of the Issuer under the Bonds and the Trust Deed; or
- (g) if the Issuer or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under Section 1 of the Insolvency Act 1986; or

- (h) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit).

For the purposes of sub-paragraph (g) above, Section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for "£750" there was substituted "£250,000" or such higher figure as the Director (as defined in the PES Licence) may from time to time determine by notice in writing to the Secretary of State (as defined in the PES Licence) and the Issuer.

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

For the purposes of these Terms and Conditions:—

"Principal Subsidiary" at any time shall mean a Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer whose only indebtedness for borrowed money is Project Finance Indebtedness):—

- (i) whose (a) profits on ordinary activities before tax or (b) gross assets represent 20 per cent. or more of the consolidated profits on ordinary activities before tax of the Group or consolidated gross assets of the Group respectively, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or
- (ii) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii) (but without prejudice to the provisions of sub-paragraph (i) above), upon publication of its next audited financial statements,

all as more fully defined in the Trust Deed, and a report by the Auditors that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Excluded Subsidiary" means any Subsidiary of the Issuer (other than a Relevant Subsidiary):—

- (i) which is a single purpose company whose principal assets and business are constituted by the ownership, acquisition, development and/or operation of an asset;
- (ii) none of whose indebtedness for borrowed money in respect of the financing of such ownership, acquisition, development and/or operation of an asset is subject to any recourse whatsoever to any member of the Group (other than another Excluded Subsidiary) in respect of the repayment thereof, except as expressly referred to in sub-paragraph (ii)(3) of the definition of Project Finance Indebtedness below; and
- (iii) which has been designated as such by the Issuer by written notice to the Trustee,

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

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

"Project Finance Indebtedness" means any indebtedness for borrowed money to finance the ownership, acquisition, development and/or operation of an asset:—

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

11. Enforcement

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

12. Substitution

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of any Subsidiary or Subsidiaries (other than an Excluded Subsidiary) of the Issuer, subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer (save (i) where the Issuer has transferred all PES Licences to the substituted Subsidiary or Subsidiaries or (ii) where such Subsidiary is or Subsidiaries are a Relevant Subsidiary or Relevant Subsidiaries and where the Issuer does not have a licence for the distribution or supply of electricity (other than an Excluded Licence)), (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

13. 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 Paying Agent in London upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. Notices

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London 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.

15. Meetings of Bondholders, Modification, Waiver and Authorisation

- (a) The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that at any meeting, the business of which includes the modification of certain of the provisions of these Terms and Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be two or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders.
- (b) The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal, minor or technical nature or to correct a manifest error.
- (c) In connection with the exercise by it of any of its trusts, powers or discretions (including, without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders and Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- (d) Any modification, waiver or authorisation shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

16. Indemnification of the Trustee

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

17. Further Issues

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

18. Governing Law

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

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, which are expected to amount to £98,861,000, will be used by the Issuer and its subsidiaries for general corporate purposes.

LONDON ELECTRICITY plc

Background

The Issuer was incorporated on 1st April, 1989. On 31st March, 1990, the Issuer commenced trading when, pursuant to the Electricity Act 1989, the property, rights and liabilities of the London Electricity Board (the Issuer's predecessor) were vested in the Issuer.

Business

Area

The Issuer is one of the twelve regional electricity companies ("RECs") serving England and Wales. It was granted a public electricity supply ("PES") licence under the Electricity Act 1989 to distribute and supply electricity in an area which covers approximately 665 square kilometres of London. The licence continues until at least 2025, although it may be revoked in certain limited circumstances. The Issuer has over 1.9 million commercial, domestic and industrial customers. The largest volume of units distributed through its network in the financial year ended 31st March, 1995 were sold to the commercial sector (approximately 59 per cent.). The domestic and industrial sectors accounted for approximately 32 per cent. and 9 per cent. of sales, respectively.

Results 1994/95

For the financial year ended 31st March, 1995, the consolidated pre-tax profits of the Issuer on a historical cost basis were £172.4 million on a turnover of £1,209.4 million. Capital investment, net of contributions from developers and customers towards the cost of distribution assets, was £95.8 million for the year ended 31st March, 1995.

Regulated Businesses of the Issuer

The regulated businesses of the Issuer comprise the distribution of electricity across its distribution system and the supply of electricity within and outside its authorised area. The distribution and supply businesses of the Issuer are principally regulated by the Electricity Act 1989 and by the conditions of its PES licence and second tier licence. The Secretary of State for Trade and Industry and the Director General of Electricity Supply ("DGES") are the principal regulators of the electricity supply industry and each has specific responsibilities. Further details are given below of both the distribution and the supply businesses.

(a) Distribution Business

Distribution is the core business of the Issuer and involves the distribution of electricity to consumers over the Issuer's system of transformers, cables and switchgear. Almost all customers in the Issuer's area are connected to the Issuer's network and are obliged to use the system over which electricity is transferred to them whether or not the electricity is supplied by an electricity supplier other than the Issuer.

Most of the income of the distribution business is controlled by a formula related to the UK Retail Price Index ("RPI"). The formula, $RPI - X_d$, allows a maximum increase in the average price per unit distributed of the percentage change in RPI less a factor, X_d . This factor was initially set at zero for the Issuer for the five-year period ending on 31st March, 1995. Following a review by the DGES of the X_d factors for all 12 RECs in August 1994, a reduction in regulated distribution prices for the year ending 31st March, 1996 of 14 per cent. was set for the Issuer, together with an X_d factor of 2 per cent. a year for the following four years. A subsequent review by the DGES in July 1995 set a further price reduction equal to 9 per cent. for the year ending 31st March, 1997, in addition to the 2 per cent. already required, together with an increase from 2 per cent. to 3 per cent. in the X_d factor for the subsequent three years.

(b) Supply Business

The supply business is a separate business and involves the bulk purchase of electricity and its sale to customers. The physical delivery of electricity across the distribution network gives rise to a cost to the supply business and income to the distribution business.

The Issuer currently has the sole right to supply almost all the premises in its authorised area except where demand is over 100kW. As part of the restructuring of the electricity industry, competition is being introduced into the supply business of all RECs on a phased basis. The threshold for competitive supply (the "franchise limit") was reduced from 1MW to 100kW with effect from 1st April, 1994, which allowed the Issuer and other suppliers who hold the appropriate licence, called a second

tier licence, to supply electricity to customers whose maximum demand exceeds 100kW ("non-franchise customers") in the areas of other RECs from that date. All holders of a second tier licence who supply to customers in the areas of other RECs must pay charges to the host REC for the use of its distribution network. It is currently intended that, with effect from 1st April, 1998, the RECs' supply businesses will be fully open to competition and will no longer be protected by a franchise.

Average charges per unit in the franchised supply business are controlled by the formula $RPI - Xs + Y$. The Y term allows a pass through of certain costs such as electricity purchase costs, transmission charges made by The National Grid Company plc ("NGC"), distribution costs, and the fossil fuel levy. The Xs term, currently set at 2 per cent., controls the costs of the supply business itself.

The majority of electricity sold by the Issuer is purchased through a wholesale commodity market, called the Pool, created for the bulk trading of electricity. The Pool was set up on 31st March, 1990 and sales and purchases of electricity are made between participating generators and suppliers according to a set of rules which govern the market's operation and the calculation of payments due to and from each of them. Pool prices are variable and difficult to predict. In order to control its exposure to prices the Issuer has a portfolio of contracts for differences with the major generators as a means of providing an adequate degree of hedging against the price fluctuations in the Pool. This portfolio includes agreements with National Power PLC and PowerGen plc for the purchase of coal-backed electricity contracts until 31st March, 1998.

Non-Regulated Businesses

The Issuer, through its wholly-owned subsidiary London Electricity Services Limited ("LES"), operates and maintains electricity distribution networks other than those of its regulated distribution business. In 1993 a substantial portion of the electricity distribution networks of Heathrow, Gatwick and Stansted airports was acquired for £90 million. Under an agreement with BAA plc, LES receives an annual fee for the use of the networks, which was set at £13.5 million for the first year and is linked to the RPI. A £20 million, three year, investment programme is under way. At Heathrow this includes a £10 million project to expand the distribution network and improve reliability and security of the system as well as to accommodate further developments at the airport, including the construction of the Paddington-Heathrow rail-link. The Issuer also carries out electrical contracting work through London Electricity Contracting Limited, a wholly-owned subsidiary of the Issuer.

These activities are not subject to the regulation applicable to the Issuer as a PES licensee.

Other non-regulated activities of the Issuer are outlined below under the headings "Power Generation" and "Other Business Development".

Power Generation

The Issuer's PES licence enables it to make a limited investment (of approximately 15 per cent. of its maximum demand) in electricity generation. The Issuer has taken the opportunity through its wholly-owned subsidiary, The London Power Company Limited, to invest in generation in order to secure longer term competitive energy prices and at the same time to achieve a profitable return on its investment.

Barking Power Limited ("Barking Power")

The London Power Company Limited has a 13.475 per cent. interest in Barking Power, a joint venture company with two other RECs and Thames Power Limited. Thames Power Limited is a joint venture between CU Power Generation Limited, one of the ATCO Limited group of companies, and BICC plc, the international cables and construction group.

Barking Power has obtained a project finance facility of £661 million from a group of commercial banks and European Investment Bank, on a non-recourse basis. A 1,000MW combined cycle gas fired power station was commissioned at Barking Reach in East London and commenced operation in 1995. Barking Power has agreed a long term gas supply contract with British Gas plc.

The Issuer holds contracts for differences for 27.5 per cent. of the output of the station.

Other Business Development

The Issuer has made the following investments in energy and energy-related companies:

Combined Power Systems Limited ("CPS")

The Issuer, through The London Power Company Limited, has an investment in CPS representing 30.83 per cent. of the voting equity. Two other RECs each have a 30.83 per cent. interest in the voting equity of CPS. CPS is a business supporting the application of micro-CHP (combined heat and power) units with less than 1MW of generating capacity.

London Total Gas Limited ("London Total Gas")

London Total Gas is a joint venture formed by the Issuer with Total Gas Marketing Limited.

London Total Gas sells gas using the existing pipeline system of British Gas plc to commercial and industrial customers, principally in the London area. London Total Gas is exploiting the opportunities presented by the opening up of the gas supply market to competition.

Thames Valley Power Limited ("Thames Valley Power")

Thames Valley Power is a joint venture formed in March 1995 between The London Power Company Limited, and CU Power Generation Limited. Thames Valley Power owns and operates a power generation (combined heat and power) plant at Heathrow Airport and has a gas supply contract with Total Gas Marketing Limited.

Investments

The Issuer owns 10.5 per cent. of NGC through The National Grid Holding plc ("NGH"). The balance is held by the other 11 RECs. NGC operates the national grid for the transmission of electricity and it charges for the use of, and connection to, the national grid. These charges are subject to price control by the DGES. The Issuer received a gross dividend from NGH in the financial year ended 31st March, 1995 of £21.2 million (1994: £19.8 million). The flotation of NGH is expected to occur later in 1995, and it is the Issuer's intention to distribute substantially all of its shareholding in NGH to its own shareholders.

Subsidiaries

The Issuer has the following principal subsidiaries:

London Electricity Services Limited

LES is 100 per cent. owned by the Issuer and was formed to operate electricity distribution networks which are not subject to regulation. The largest networks are those of Heathrow, Gatwick and Stansted airports.

LES also holds the investment in the Issuer's electrical contracting business through a wholly-owned subsidiary, London Electricity Contracting Limited.

London Electricity Transport Services Limited

London Electricity Transport Services Limited is 100 per cent. owned by the Issuer and was established in April 1994 to provide transport services to the Issuer and its subsidiaries.

The London Power Company Limited

The London Power Company Limited was formed to hold the Issuer's investments in generation. Currently these consist of Barking Power, Thames Valley Power, CPS and Combined Power Systems (Southern) Limited. It is 100 per cent. owned by the Issuer.

London Power Insurance Limited

London Power Insurance Limited is an insurance company incorporated in Guernsey. It was established to provide certain insurance cover for the Issuer. It is 100 per cent. owned by the Issuer.

Berkeley Environmental Systems Plc ("BES")

BES specialises in the design, installation and operation of energy management systems in buildings and is 100 per cent. owned by London Electricity Enterprises Limited, which in turn is wholly-owned by the Issuer.

Combined Power Systems (Southern) Limited ("CPS (Southern) Limited")

The London Power Company Limited is a majority shareholder in CPS (Southern) Limited.

In addition, the Issuer has a further ten wholly-owned subsidiaries, all of which are dormant.

Directors and Employees

The Directors of the Issuer, their functions and principal activities outside the Issuer are listed below:

Sir Bob Reid	Chairman <i>Chairman of Sears plc</i> <i>Chairman of British Borneo Petroleum Syndicate plc</i>
Michael J. Kersey	Chief Executive
Alan V. Towers	Finance Director <i>Director of Electricity Pensions Limited and Electricity Pensions Trustee Limited</i>
Michael J. Brown	Customer Services Director
Ian R. Beament	Network Services Director
Gordon M. W. Owen, CBE, CBIM	Non-Executive Director <i>Chairman of ENERGIS Communications Limited</i>
Leslie W. Priestley, TD, FCIB, CBIM, FInstM	Non-Executive Director

The business address of each of the above is Templar House, 81-87 High Holborn, London WC1V 6NU.

The average numbers of employees (including Executive Directors) over the three financial years ending 31st March, 1995 were 6,258, 5,532 and 4,908, respectively.

CAPITALISATION

The following table sets out the reserves of the Issuer as at 31st March, 1995 (as extracted from the audited consolidated historical cost accounts of the Issuer) and the share capital and unaudited consolidated borrowings of the Issuer as at 22nd September, 1995, adjusted to reflect the principal amount of the Bonds now being issued:—

	As at 31st March, 1995
Reserves	£m
Share premium account	2.9
Capital redemption reserve	11.0
Revaluation reserve (Note 1)	81.9
Profit and loss account	463.2
Total reserves	559.0
	As at 22nd September, 1995
Share Capital	£m
Called up share capital (Note 2)	99.3
Borrowings	
Amounts due within one year	
Commercial Paper (Note 5)	30.0
Amounts due after more than one year	
8 per cent. Bonds due 2003 (Note 5)	100.0
8.625 per cent. Bonds due 2005 (now being issued) (Note 5)	100.0
	200.0
Total borrowings	230.0

Notes:—

- (1) The reserves include the acquisition by the Issuer in the year ended 31st March, 1991 of certain shares in The National Grid Holdings plc ("NGH") for nil consideration (which are shown in the books of account at £81.9m). The flotation of NGH is expected to occur later in 1995 and it is the Issuer's intention to distribute substantially all of its shareholding in NGH to its own shareholders.
- (2) At 22nd September, 1995, the Issuer's authorised share capital was 300,000,002 ordinary shares of 50p each. Its issued share capital was 198,566,034 ordinary shares of 50p each (fully paid). The Issuer's authorised share capital was increased to 300,000,002 ordinary shares of 50p each by a Special Resolution passed at the Issuer's Annual General Meeting held on 4th August, 1995 following redemption of the £1 special rights redeemable preference share held by H.M. Government.
- (3) At the Annual General Meeting of the Issuer held on 4th August, 1995 the Issuer received authority to purchase a maximum of 10 per cent. of its issued share capital.
- (4) Arrangements have been put in place to entitle HM Government to a proportion of any property gain (above certain thresholds) accruing or treated as accruing to the Issuer as a result of disposals, or events treated as disposals for clawback purposes, occurring after 31st March, 1990 in relation to land in which the Issuer or any of its subsidiaries had an interest at that date (and, in certain circumstances, land in which the Issuer or any of its subsidiaries acquired an interest thereafter from other members of the electricity industry) and any buildings on that land. These arrangements will last until 31st March, 2000.
- (5) This represents the principal amount to be repaid at maturity.
- (6) Save as aforesaid there has been no material change in the authorised or issued share capital of the Issuer, or consolidated borrowings of the Issuer since 22nd September, 1995.

FIVE YEAR SUMMARY FINANCIAL INFORMATION

The summary historical cost financial information set out below is extracted from the audited consolidated financial statements of the Issuer for the five years ended 31st March, 1995.

Consolidated historical cost balance sheets

	At 31st March,				
	1995	1994	1993	1992	1991
	£m	£m	£m	£m	£m
Fixed assets					
Tangible assets	730.2	676.5	621.5	542.3	512.0
Investments	93.4	92.1	87.2	83.0	81.9
	<u>823.6</u>	<u>768.6</u>	<u>708.7</u>	<u>625.3</u>	<u>593.9</u>
Current assets					
Stocks	4.3	4.6	10.9	13.6	12.3
Debtors	283.5	213.2	249.9	276.4	273.0
Investments	49.3	224.9	28.2	9.7	160.7
Cash at bank and in hand	0.7	10.5	2.1	8.1	7.4
	<u>337.8</u>	<u>453.2</u>	<u>291.1</u>	<u>307.8</u>	<u>453.4</u>
Creditors: (amounts falling due within one year)	<u>(343.2)</u>	<u>(265.3)</u>	<u>(262.8)</u>	<u>(224.5)</u>	<u>(411.8)</u>
Net current assets	<u>(5.4)</u>	<u>187.9</u>	<u>28.3</u>	<u>83.3</u>	<u>41.6</u>
Total assets less current liabilities	<u>818.2</u>	<u>956.5</u>	<u>737.0</u>	<u>708.6</u>	<u>635.5</u>
Creditors: (amounts falling due after more than one year)	<u>(114.7)</u>	<u>(189.7)</u>	<u>(73.3)</u>	<u>(72.4)</u>	<u>(71.7)</u>
Provisions for liabilities and charges	<u>(45.7)</u>	<u>(50.1)</u>	<u>(41.8)</u>	<u>(35.6)</u>	<u>(28.2)</u>
Net assets	<u>657.8</u>	<u>716.7</u>	<u>621.9</u>	<u>600.6</u>	<u>535.6</u>
Capital and reserves					
Called up share capital	98.8	109.5	109.1	109.0	109.0
Share premium account	2.9	2.0	0.3	—	—
Capital redemption reserve	11.0	—	—	—	—
Revaluation reserve	81.9	81.9	81.9	81.9	81.9
Profit and loss account	463.2	523.3	430.6	409.7	344.7
Shareholders' funds	<u>657.8</u>	<u>716.7</u>	<u>621.9</u>	<u>600.6</u>	<u>535.6</u>

Consolidated historical cost profit and loss accounts

	Year ended 31st March,				
	1995	1994	1993	1992	1991
	£m	£m	£m	£m	£m
Turnover					
Continuing operations	1,209.4	1,292.4	1,367.4	1,347.1	1,224.0
Discontinued electrical retailing	0.0	16.0	0.0	0.0	0.0
	<u>1,209.4</u>	<u>1,308.4</u>	<u>1,367.4</u>	<u>1,347.1</u>	<u>1,224.0</u>
Cost of sales	(740.1)	(862.4)	(931.7)	(905.0)	(839.0)
Gross profit	<u>469.3</u>	<u>446.0</u>	<u>435.7</u>	<u>442.1</u>	<u>385.0</u>
Net operating expenses					
Continuing and discontinued operations	(273.8)	(274.5)	(283.4)	(304.8)	(279.8)
Exceptional costs of restructuring	(33.0)	0.0	0.0	0.0	0.0
Operating profit					
Continuing operations	162.5	172.5	152.3	137.3	105.2
Discontinued electrical retailing	0.0	(1.0)	0.0	0.0	0.0
Share of profits/(losses) of associated undertakings	(0.7)	0.3	(0.2)	0.0	0.0
Income from fixed asset investments	21.2	19.8	17.7	16.4	14.6
Net interest (payable)/receivable ...	(1.1)	(5.1)	(4.3)	(11.2)	22.0
Exceptional items	(9.5)	0.0	(20.0)	0.0	0.0
Profit on ordinary activities before taxation	<u>172.4</u>	<u>186.5</u>	<u>145.5</u>	<u>142.5</u>	<u>141.8</u>
Taxation on profit on ordinary activities	(22.5)	(44.5)	(37.5)	(39.0)	(40.8)
Profit on ordinary activities after taxation	<u>149.9</u>	<u>142.0</u>	<u>108.0</u>	<u>103.5</u>	<u>101.0</u>
Extraordinary items	0.0	0.0	0.0	0.0	(5.8)
Dividends	(58.0)	(49.3)	(42.5)	(36.6)	(22.8)
Retained profit for the financial year	<u>91.9</u>	<u>92.7</u>	<u>65.5</u>	<u>66.9</u>	<u>72.4</u>
Earnings per share	71.4p	65.0p	49.5p	47.5p	46.3p

UNITED KINGDOM TAXATION

The comments below are of a general nature based on the Issuer's understanding of current United Kingdom law and Inland Revenue practice. They relate only to the position of persons who are the absolute beneficial owners of their Bonds and the related Coupons appertaining thereto and may not apply to certain classes of persons such as dealers.

Any Bondholders and Couponholders who are in any doubt as to their personal tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should consult their professional advisers.

On 10th July, 1995 the UK Government announced a major change to the UK tax treatment of bonds and other debt. The change, if enacted in accordance with the proposals announced, will affect the way in which interest, profits and losses on the Bonds are subject to tax, but is unlikely to affect withholding tax rules (as outlined in paragraphs 1-6 below). The new regime is expected to apply from 1st April, 1996 for corporate Bondholders and from 6th April, 1996 for other Bondholders. Paragraphs 7 and 8 below outline both the position under current law and that expected if the new regime applies in accordance with the current proposals. It should be noted that draft legislation to give effect to the new regime is not yet available. To date only an outline of the proposed new regime has been given and many details including, in particular, provisions concerning transition from current law to the new regime remain subject to consultation with the Inland Revenue. It is therefore possible that the tax treatment under the new regime summarised below may change during the legislative process.

1. The Bonds will constitute "quoted Eurobonds" within the terms of section 124 of the Income and Corporation Taxes Act 1988 provided they continue to be quoted on a "recognised stock exchange" within the meaning of section 841 of that Act. Accordingly, payments of interest on each Bond may be made without deduction or withholding for or on account of United Kingdom income tax where:—
 - (a) the payment is made by a paying agent outside the United Kingdom; or
 - (b) the payment is made by a paying agent inside the United Kingdom; and either
 - (i) the Bond and related Coupons are held in a "recognised clearing system" (Cedel and Euroclear have each been designated as a "recognised clearing system" for this purpose); or
 - (ii) it is proved to the satisfaction of the Commissioners of Inland Revenue, on a claim made in that behalf, that the person who is the beneficial owner of the Bond and the relevant Coupon (or, where the provisions of United Kingdom tax legislation deem the interest to be that of some other person, that person) is not resident in the United Kingdom for tax purposes.

In all other cases interest will be paid under deduction of United Kingdom income tax at the basic rate (currently 25 per cent.) subject to any direction to the contrary by the Inland Revenue under the provisions of an applicable double taxation treaty.

2. A collecting agent in the United Kingdom obtaining payment of interest whether in the United Kingdom or elsewhere from which United Kingdom income tax has not already fallen to be withheld or deducted or realising in the United Kingdom any interest on behalf of a Bondholder or Couponholder may be required to withhold or deduct United Kingdom income tax at the basic rate unless it is proved, on a claim in that behalf made in advance to the Inland Revenue, that the person who is the beneficial owner of the Bond and entitled to the interest is not resident in the United Kingdom and the interest is not deemed for United Kingdom tax purposes to be the income of any other person.
3. Interest on the Bonds constitutes United Kingdom source income for United Kingdom tax purposes and, as such, remains subject to United Kingdom taxation by direct assessment even where paid without withholding or deduction. However, under Inland Revenue Extra Statutory Concession B13, interest paid without withholding will not be assessed to United Kingdom taxation in the hands of Bondholders who are not resident in the United Kingdom (throughout the year of assessment in which they receive the relevant interest) except where such persons:—
 - (a) are chargeable under Section 78 of the Taxes Management Act 1970 in the name of a trustee or other person as defined in Section 72 of that Act, or in the name of an agent or branch in the United Kingdom having the management or control of the interest; or
 - (b) seek to claim relief in respect of taxed income from United Kingdom sources (insofar as the tax on the interest can be recovered by set off against the claim); or

- (c) are chargeable to United Kingdom corporation tax on the income of a United Kingdom branch or agency to which the interest is attributable; or
- (d) are chargeable to United Kingdom income tax on the profits of a trade carried on in the United Kingdom to which the interest is attributable.

However recent legislation contained in the Finance Act 1995 and which has effect from either April 1995 or April 1996 depending on the circumstances replaces the Inland Revenue practice described above and generally limits tax charged to tax, if any, deducted at source where the beneficial owner of such interest is not resident in the United Kingdom unless the interest is attributable to a branch or agency carrying on a trade in the United Kingdom.

4. Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. Bondholders should note that the provisions relating to additional amounts referred to in "Terms and Conditions of the Bonds - 8. Taxation" above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest paid on any Bonds directly to United Kingdom tax on income. However, exemption from or reduction of such United Kingdom tax liability might be available under the provisions of an applicable double taxation treaty.
6. Under current law, profits or losses realised on disposal or redemption of Bonds normally have the nature of capital for tax purposes. The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. As such, neither a chargeable gain nor an allowable loss will arise on a disposal of the Bonds for the purposes of UK taxation of chargeable gains.
7. Under the new regime, if it is enacted in accordance with the current proposals, gains and losses on the Bonds will be treated as of an income nature for tax purposes. For UK resident corporate holders and certain UK branches of non-UK resident companies the qualifying corporate bond exemption will, if it is enacted in accordance with the current proposals, no longer apply and fluctuations in the value of the Bonds will be subject to tax and give rise to tax relief in each accounting period in respect of the profit or loss arising in such period, calculated on either an accruals or mark-to-market basis, depending on the accounting treatment adopted. Such corporate Bondholders will be subject to tax in each accounting period on interest accrued in each period, rather than, as currently, on interest received in the period.

According to the current proposals, UK resident individuals (including trusts) will remain subject to the present rules unless the aggregate nominal value of their holdings of securities and units in certain unit trusts exceeds £200,000. For UK resident individuals (and trusts) who are subject to the new regime, gains or losses on realisation will be taxed or relieved as income. There will be no gain or loss on death; holdings will pass to personal representatives and legatees at the then market value of the Bonds.

Charities, pension funds and other exempt funds will, under the proposed new regime, continue not to be subject to tax on their holdings of Bonds. Special rules will apply to certain authorised unit trusts and their investors.

Non-UK residents (including non-resident individuals, trusts and companies without a UK branch) will remain subject to the present regime.

8. Under current law, a transfer of a Bond by a Bondholder who is resident or ordinarily resident in the UK or who carries on a trade in the UK through a branch or agency to which the Bonds are attributable may give rise to a charge to UK tax, under the accrued income scheme, on income in respect of an amount representing interest on the Bond which has accrued since the preceding interest payment date. The accrued income scheme will not apply to corporate Bondholders and other taxpayers subject to the new regime.
9. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of a Bond or on its transfer.

SUBSCRIPTION AND SALE

Midland Bank plc, Goldman Sachs International, Swiss Bank Corporation and UBS Limited (together, the "Managers") have, pursuant to a Subscription Agreement dated 20th October, 1995 (the "Subscription Agreement"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at the issue price of 100.896 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a selling commission of 1.625 per cent., and a combined management and underwriting commission of 0.375 per cent., of such principal amount. The Issuer has agreed to reimburse certain of the expenses of the Managers in connection with the issue of the Bonds. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Bonds.

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

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

GENERAL INFORMATION

Listing

The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount, exclusive of accrued interest. Transactions will normally be effected for settlement in sterling and for delivery on the third business day in London after the date of the transaction. It is expected that listing of the Bonds will be granted on 25th October, 1995, subject only to the issue of the Global Bond. Prior to official listing, however, dealings in the Bonds will be permitted by the London Stock Exchange in accordance with its rules.

Legend

Bonds and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Clearing Systems

The Bearer Bonds have been accepted for clearance through Euroclear and Cedel with a Common Code number 6088716. The ISIN is XS0060887162.

Approvals and authorisations

The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 3rd October, 1995 and by a resolution of a duly authorised committee of the board of directors of the Issuer passed on 19th October, 1995.

Accounts

The financial information contained in this Offering Circular does not constitute statutory accounts (within the meaning of Section 240 of the Companies Act 1985 (the "Act") for any year or other period. Statutory accounts for the five years ended 31st March, 1995 have been delivered to the Registrar of Companies in England and Wales. Coopers & Lybrand, the Issuer's auditors for those years have made reports under Section 235 of the Act on the statutory accounts for the five years ended 31st March, 1995 which were not qualified (within the meaning of Section 262 of the Act) and did not contain a statement made under Section 237(2) or Section 237(3) of the Act.

No Significant or Material Change

Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Group since 31st March, 1995 (being the date of its last published accounts) and, since such date, save as disclosed herein, there has been no material adverse change in the financial position or prospects of the Issuer or the Group.

Litigation

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

Auditors

The Auditors of the Group are Coopers & Lybrand, who have audited the Group's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the financial years ended 31st March, 1993, 1994 and 1995.

Documents available for inspection

Copies of the following documents may be inspected during usual business hours on any week day (Saturdays and public holidays excepted) at the offices of Allen & Overy, One New Change, London EC4M 9QQ, during the period of 14 days from the date of this Offering Circular:—

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the annual report and accounts of the Issuer for the years ended 31st March, 1994 and 1995;
- (iii) the Subscription Agreement;
- (iv) the Principal Trust Deed; and
- (v) drafts (subject to modification) of the Supplemental Trust Deed, incorporating the forms of the Global Bond, the definitive Bonds and the Coupons, and the Paying Agency Agreement.

REGISTERED OFFICE OF THE ISSUER

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PRINCIPAL PAYING AGENT

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