



Eastern Group plc

*(Incorporated in England with limited liability
under the Companies Act 1985. Registered number 2366906)*

£200,000,000

8½ per cent. Bonds due 2025

ISSUE PRICE: 100.73 PER CENT.

The £200,000,000 8½ per cent. Bonds due 2025 (the "Bonds") of Eastern Group plc (the "Issuer" or the "Company") will mature on 31st March, 2025. The Bonds will be issued in bearer form in the denominations of £1,000, £10,000 and £100,000. See "Conditions of the Bonds—Form, Denomination and Title". Interest on the Bonds will be payable in arrear on 31st March in each year, the first such payment being made on 31st March, 1996 in respect of the period from and including 5th July, 1995 to but excluding 31st March, 1996. Payments of principal of, and interest on, the Bonds will be made without withholding or deduction for or on account of United Kingdom taxes, as described under "Conditions of the Bonds—Taxation".

The Bonds mature on 31st March, 2025 but may be redeemed before then at the option of the Issuer in whole or in part at any time at the higher of their principal amount and an amount calculated by reference to yields on United Kingdom Government Stock, together with accrued interest, as described under "Conditions of the Bonds—Redemption and Purchase". The Bonds are also subject to redemption in whole (but not in part) at their principal amount, together with accrued interest at the option of the Issuer, if the Issuer becomes obliged to pay certain additional amounts as described under "Conditions of the Bonds—Redemption and Purchase". Upon the occurrence of certain events, as described under "Conditions of the Bonds—Redemption at the Option of Bondholders", the holders of the Bonds may require the Issuer to redeem the Bonds at their principal amount (plus accrued interest, if any).

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 to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act.

Barclays de Zoete Wedd Limited

Cazenove & Co.

29th June, 1995

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 is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained herein must not be relied upon as having been authorised by or on behalf of the Issuer or the Managers (as defined under "Subscription and Sale" below). This document 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 document nor any subscription, sale or purchase made in connection herewith shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof.

The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer 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 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. A further description of certain restrictions on the offering and sale of the Bonds and on the distribution of this document is given under "Subscription and Sale" below.

The Bonds will be represented initially by a temporary global bond without interest coupons (the "Temporary Global Bond") to be deposited with a common depository on behalf of 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 5th July, 1995. The Temporary Global Bond will be exchangeable for Bonds in definitive bearer form with interest coupons attached not earlier than a date which is expected to be 15th August, 1995, upon certification as to non-U.S. beneficial ownership.

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

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In connection with this issue, Barclays de Zoete Wedd Limited 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.

CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form:

The £200,000,000 8½ per cent. Bonds due 2025 (the "Bonds", which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of Eastern Group plc (the "Issuer") are constituted by a Supplemental Trust Deed (the "Supplemental Trust Deed") dated 5th July, 1995 supplemental to a Master Trust Deed (the "Master Trust Deed" and, together with the Supplemental Trust Deed, the "Trust Deed") dated 1st June, 1994, each made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer passed on 26th May, 1995 and 23rd June, 1995 and by resolutions of a duly authorised committee of the board of directors of the Issuer passed on 7th June, 1995 and 23rd June, 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 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 a Paying Agency Agreement dated 5th July, 1995 (the "Paying Agency Agreement") made between the Issuer, the initial paying agents (each a "Paying Agent") and the Trustee are available for inspection during normal business hours by the Bondholders, the holders of the interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons", respectively) and the holders of talons appertaining to the Coupons (the "Talons") at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Princes House, 95 Gresham Street, London EC2V 7LY 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 Paying Agency Agreement.

1. Form, Denomination and Title

(1) 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 and one Talon for further Coupons attached thereto on issue. Title to the Bonds and to the Coupons will pass by delivery. Bonds of one denomination cannot be exchanged for Bonds of any other denomination.

(2) 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 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

(1) So long as any of the Bonds remain outstanding (as defined in the Trust Deed) the Issuer will ensure that no Relevant Indebtedness (as defined below) of the Issuer or any PES Subsidiary (as defined below) of the Issuer and no guarantee by the Issuer or any PES Subsidiary of the Issuer of any Relevant Indebtedness of any other 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 PES 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 (A) as the Trustee shall in its

absolute discretion deem not materially less beneficial to the interests of the Bondholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders,

save that the Issuer or any PES Subsidiary of the Issuer may create or have outstanding a Security Interest in respect of Relevant Indebtedness and/or guarantees given by the Issuer or any PES Subsidiary of the Issuer in respect of Relevant Indebtedness of any other 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 such Relevant Indebtedness has an initial maturity falling not earlier than 31st December, 2026 and is of a maximum aggregate amount outstanding at any time not exceeding the greater of £200,000,000 or 20 per cent. of the Capital and Reserves.

(2) For the purposes of these Conditions:

(a) "Capital and Reserves" means the aggregate of:

- (i) the amount paid up on the share capital of the Issuer; and
- (ii) the total of the capital and revenue reserves of the Group, 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 of the Issuer 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 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.

A report by the Auditors (as defined in the Trust Deed) 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.

(b) "Excluded Subsidiary" means any Subsidiary of the Issuer (other than a Subsidiary which holds the public electricity supply licence granted under the Electricity Act 1989):

- (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 paragraph (f)(ii)(3); 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;

(c) "Group" means the Issuer and its Subsidiary Undertakings;

(d) "Subsidiary Undertaking" shall have the meaning given to it by section 258 of the Companies Act 1985 (but shall exclude any undertakings (as defined in the Companies Act 1985) whose accounts are not included in the then latest published audited consolidated accounts of the Issuer, nor (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 its accounts have been so included or consolidated if it had become so on or before that date);

(e) "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;

- (f) "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 (A) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (B) such person or persons are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for 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;
- (g) "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, as the case may be, 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;
- (h) "Subsidiary" means a subsidiary within the meaning of section 736 of the Companies Act 1985;
- (i) "PES Subsidiary" means any subsidiary of the Issuer which holds a public electricity supply licence granted under the Electricity Act 1989; and
- (j) any reference to an obligation being guaranteed shall include a reference to an indemnity being given in respect of the obligation.

4. Interest

(1) The Bonds bear interest from (and including) 5th July, 1995 at the rate of 8½ per cent. per annum, payable annually in arrear on 31st March in each year (each an "Interest Payment Date"), except that the first payment of interest, to be made on 31st March, 1996 will be in respect of the period from (and including) 5th July, 1995 to (but excluding) 31st March, 1996 and will amount to £62.57 per Bond of £1,000, £625.69 per Bond of £10,000 and £6,256.94 per Bond of £100,000.

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.

(2) 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 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

5. Payments and Exchange of Talons

(1) 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 of the relevant Coupons, in each case at the specified office of any of the Paying Agents.

(2) 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 the City of London, subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8.

(3) Upon the due date for redemption of, or upon the purchase by the Issuer or any of its Subsidiaries, and cancellation of, any Bond, all unmatured Coupons relating thereto and the Talon if unmatured relating to such Bond (whether or not attached and surrendered therewith) shall become void and no payment or exchange shall be made in respect of any such Coupon or Talon. Where any Bond is presented for redemption without all unmatured Coupons and the Talon if unmatured relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may reasonably require.

(4) 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 the City of London as referred to above, in the City of London.

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

(5) The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the 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) On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon). Each Talon shall, for the purposes of these Conditions, become exchangeable on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures and shall be treated for the purposes of these Conditions as comprising the Coupons which may be exchanged in respect thereof.

6. Redemption and Purchase

(1) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 31st March, 2025.

(2) The Issuer may, at any time, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 14 (which notice shall be irrevocable), redeem the Bonds in whole or in part (but if in part, in integral multiples of £1,000,000 of the principal amount thereof), at the price which shall be the higher of the following, together with interest accrued up to the date of redemption:

- (i) par; and
- (ii) that price (the "Redemption Price"), expressed as a percentage rounded to three decimal places (0.0005 being rounded down), at which the gross redemption yield on the Bonds, if they were to be purchased at such price on the third dealing day prior to the publication of the notice of redemption, would be equal to the gross redemption yield on such dealing day of the 8¾ per cent. Treasury Stock 2017 or of such other United Kingdom Government Stock as the Trustee, with the advice of three leading brokers operating in the gilt-edged market and/or gilt-edged market makers, shall determine to be appropriate (the "Reference Stock") on the basis of the middle market price of the Reference Stock prevailing on such dealing day, as determined by Barclays de Zoete Wedd Limited (or such other person(s) as the Trustee may approve).

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

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected individually by lot in such place as the Trustee may approve and in such manner as the Trustee shall deem to be appropriate and fair without involving any part only of a Bond, not more than 65 days before the date fixed for redemption. Each notice of redemption will specify the date fixed for redemption, the relative redemption price, the aggregate principal amount and the certificate numbers of the Bonds to be redeemed, the serial numbers of the Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

Upon the expiry of any notice as is referred to above the Issuer shall be bound to redeem the Bonds to which the notice refers at the relative redemption price applicable at the date of such redemption together with interest accrued to but excluding the redemption date.

(3) 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 29th June, 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 the Bonds (other than Bonds in respect of which the Issuer shall have given a notice of redemption pursuant to Condition 6(2) prior to any notice being given under this Condition 6(3)), but not some only, 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.

(4) 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.

(5) 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 resold or surrendered for cancellation.

(6) Upon the expiry of any notice as is referred to in paragraph (3) above (and subject as provided therein), the Issuer shall be bound to redeem the Bonds at their principal amount together with interest (if any) accrued to the redemption date.

7. Redemption at the Option of Bondholders

- (1) (A) 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 shall cease to have any further effect in relation to such Restructuring Event.
- (B) If, at any time while any of the Bonds remains outstanding, a Put Event occurs then (unless at any time the Issuer shall have given a notice under Condition 6(2) or Condition 6(3)) the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the 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 the Put Date.

A "Put Event" occurs if at any time while any of the Bonds remains outstanding:

(a) *either:*

- (i) a Category I Restructuring Event occurs and (subject to Condition 7(1)(A)), within the Restructuring Period either (if at the time the relevant Category I Restructuring Event occurs there are Rated Securities), a Rating Downgrade in respect of that Category I Restructuring Event also occurs, or (if at such time there are no Rated Securities) a Negative Rating Event occurs;

or

(ii) a Category II Restructuring Event occurs and (subject to Condition 7(1)(A)), either:

- (x) (if there are during the Restructuring Period Rated Securities) the 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)
- (aa) at the commencement of the Restructuring Period is a non-investment grade rating (BB+/Ba1 or their respective equivalents for the time being or worse);
or
- (bb) within the Restructuring Period, a Rating Downgrade occurs;
in either case as a result, in whole or in part, of the modifications comprised within the Category II Restructuring Event or the announcement of such modifications; *or*
- (y) (if at such time there are no Rated Securities) a Negative Rating Event 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") provided that such Restructuring Event shall not be deemed to be materially prejudicial to the interests of the Bondholders if, notwithstanding the occurrence of a Rating Downgrade or, as the case may be, the fulfilment of the conditions referred to in paragraph (ii)(x) the rating assigned to the Rated Securities by any Rating Agency is subsequently increased to an investment grade rating (BBB-/Baa3 or their respective equivalents for the time being, or better) prior to any such certificate 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.

(2) Promptly upon the Issuer becoming aware that a Put Event 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 option contained in this Condition 7.

(3) To exercise the option to require a redemption or purchase of a Bond under this Condition, the holder of the Bond must deliver such Bond at the specified office of any Paying Agent, on a day which is a Business Day (as defined in Condition 5) in the City of 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 signed and completed 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. 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 specified a bank account in the Put Notice to which payment is to be made on the day (the "Put Date") being the fifteenth day after the expiry of the Put Period 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(2), 9, 10, 11, 13 and 15 and for certain other purposes specified in the Trust Deed, receipts issued pursuant to this Condition 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.

(4) For the purposes of these Conditions:

(a) "Category I Restructuring Event" means the occurrence of any one or more of the following events:

- (i) (A) the Secretary of State for Trade and Industry (or any successor) gives the Issuer written notice of revocation of the public electricity supply licence (the "PES Licence") granted by the Secretary of State for Energy to the Issuer under the Electricity Act 1989 in relation to its authorised area and excluding any second tier supply licence provided that the giving of notice pursuant to paragraph 3 of Part 1 of the PES Licence shall not be deemed to constitute the revocation of the PES Licence or (B) the Issuer agrees in writing with the Secretary of State for Trade and Industry (or any successor) to any revocation or surrender of the PES Licence or (C) any legislation (whether primary or subordinate) is enacted terminating or revoking the PES Licence, except in any such case in circumstances where a licence or licences on no less favourable terms is or are granted to the Issuer or a wholly-owned Subsidiary of the Issuer (the "Relevant Subsidiary") and in the case of such Relevant Subsidiary at the time of such grant it either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Bonds in such form as the Trustee may approve (such approval not to be unreasonably withheld or delayed) or becomes the primary obligor under the Bonds in accordance with Condition 12; or
- (ii) any modification, other than (A) a modification of the kind referred to in the definition of a Category II Restructuring Event and (B) a modification which is of a formal, minor or technical nature, is made to the terms and conditions of the PES Licence on or after 29th June, 1995 such that the modified terms and conditions are certified by two directors of the Issuer to be materially less favourable to the business of the Issuer; or
- (iii) (A) the Pooling and Settlement Agreement is terminated under Clause 61.4 thereof and not replaced by an agreement, commercial arrangement or open market mechanism or framework having substantially the same effect as the Pooling and Settlement Agreement, in each case, on terms which two directors of the Issuer certify to be not materially less favourable to the business of the Issuer or (B) the Issuer is given notice

pursuant to Clause 61.3.2 of the Pooling and Settlement Agreement requiring it to cease to be a party thereto or (C) any notice declaring an event of default (as defined in the Pooling and Settlement Agreement) is given to the Issuer under Clause 60.1.1 or 60.2 thereof or (D) any modification, other than a modification which is of a formal, minor or technical nature, is made to the Pooling and Settlement Agreement on or after 29th June, 1995 or (E) the Issuer ceases to be a party to the Pooling and Settlement Agreement for any reason (other than pursuant to (B) and (C) above), except where a licence is granted to the Relevant Subsidiary as contemplated by sub-paragraph (4)(a)(i) above and at or about the same time all rights and obligations of the Issuer pursuant to the Pooling and Settlement Agreement are assigned and transferred to such Relevant Subsidiary in such manner as the Trustee may approve (such approval not to be unreasonably withheld or delayed), provided that:

- (a) in the case of (D) two directors of the Issuer certify either that any such modification has a material 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 that it otherwise has a materially adverse effect on the financial rights or obligations of the Issuer under the Pooling and Settlement Agreement; and
 - (b) any 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 or to be materially adverse 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 or be materially adverse as provided above shall not by virtue of this sub-paragraph (b) be deemed not to be so.
- (b) "Category II Restructuring Event" means (i) any modification is made to the terms and conditions of the PES Licence resulting from the exercise by the Director General of Electricity Supply of his power to review the price control formula by which increases in the maximum average price per unit are controlled in relation to the Distribution Business and/or Supply Business (including, for the avoidance of doubt, any modification following a reference to the Monopolies and Mergers Commission) (as each such term is defined in the PES Licence), other than a modification of the kind referred to in paragraph (ii)(B) of the definition of "Category I Restructuring Event" and (ii) in the financial quarter in which such modification takes effect or any of the five immediately succeeding financial quarters, the ratio of Consolidated Operating Profit to Consolidated Interest Payable is less than 1.5:1 in respect of such financial quarter.

Two directors of the Issuer shall within 28 days of the end of each financial quarter confirm compliance with the ratio referred to above for such financial quarter and certify the amount of Consolidated Interest Payable and Consolidated Operating Profit, such compliance and amounts to be verified in the case of the fourth financial quarter in each financial year by the Auditors by reference to the underlying books and records, and confirmed in a certificate to be delivered by the Auditors to the Trustee within 90 days of the end of such fourth quarter.

(Subject to confirmation by the Auditors as provided above in the case of the fourth financial quarter of each financial year) the unqualified certificate of two directors of the Issuer as to the amount of Consolidated Interest Payable and Consolidated Operating Profit for the purpose of the ratio referred to in the definition of "Category II Restructuring Event" shall, in the absence of manifest error, be conclusive and binding on the Trustee, the Issuer and the Bondholders.

- (c) "Consolidated Interest Payable" means, in respect of any financial quarter of the Group, the aggregate amount of interest and similar charges (whether or not capitalised) incurred by the Group during that financial quarter; including interest, commissions and fees in respect of moneys borrowed or raised, discounts in respect of bills, notes or debts discounted and that part of any amount under a financing lease or hire purchase, credit sale, conditional sale or deferred purchase agreement which represents any of the foregoing, all determined on a consolidated basis.

- (d) "Consolidated Operating Profit" means, in respect of any financial quarter of the Group, the consolidated profit on ordinary activities before taxation and extraordinary and exceptional items of the Group for such financial quarter all determined on a consolidated basis and prepared in accordance with the accounting principles and policies consistently applied in connection with the preparation of the Group's most recently published interim consolidated financial statements and the Group's most recently published annual report and accounts but after adding back Consolidated Interest Payable for such financial quarter. Electricity and gas purchase costs and sales income are to be recorded within each financial quarter of the financial year on the basis of the relationship of the actual level of unit sales in the year to date to the expected level of unit sales for the whole financial year.
- (e) "financial quarter" means the three month period ending 31st March, 30th June, 30th September and 31st December in each year and any of such periods.
- (f) A "Negative Rating Event" shall be deemed to have occurred if (x) 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 (y) 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).
- (g) "Rating Agency" means Standard & Poor's Ratings Group 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).
- (h) 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.
- (i) "Rated Securities" means the Bonds, if at any time and for so long as they shall 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.
- (j) "Restructuring Event" means a Category I Restructuring Event and/or, as the context may require, a Category II Restructuring Event.
- (k) "Restructuring Period" means:
 - (i) if at the time a Restructuring Event occurs there are Rated Securities, in the case of a Category I Restructuring Event, the period of 90 days starting from and including the day on which a Restructuring Event occurs and, in the case of a Category II Restructuring Event, the period of 90 days starting from and including the last day of the financial quarter in respect of which the ratio of Consolidated Operating Profit to Consolidated Interest Payable is less than 1.5:1; or
 - (ii) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including, in the case of a Category I Restructuring Event, the day on which a Restructuring Event occurs and, in the case of a Category II Restructuring Event, the last day of the financial quarter in respect of which the ratio of Consolidated Operating Profit to Consolidated Interest Payable is less than 1.5:1 and ending on the day 90 days following the later of (1) the date on which the Issuer shall seek to obtain a rating pursuant to Condition 7(4)(f) prior to the expiry of the 14 days referred to in the definition of "Negative Rating Event" and (2) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event.

- (l) "Pooling and Settlement Agreement" means the agreement dated 30th March, 1990 (as in force at 29th June, 1995) 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 29th June, 1995.
- (m) 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 or modification comprised within a Category II Restructuring Event or the announcement of such modification (the "Price Modification") 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 or rating 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 or, in the case of a Category II Restructuring Event, a Price Modification.

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 to the contrary the Trustee may assume that no Restructuring Event, Negative Rating Event or other such event has occurred.

8. Taxation

(1) 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) 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; 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.

(2) In these Conditions, "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 (as defined in the Paying Agency Agreement) 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.

(3) Any reference in these 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 (which for this purpose shall not include Talons) 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(3). There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to the provisions of this Condition or Condition 5.

10. Events of default

(1) 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, (but, in either case, where the relevant event is one of those 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 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 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 of notice 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 or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money 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 2 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 approved 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 the Principal Subsidiary are transferred to the Issuer or any of its Subsidiaries or (ii) the terms of which have been approved 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 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) where the transferee is or immediately upon such transfer becomes a Principal Subsidiary or (iv) the terms of which have been approved by the Trustee or by an Extraordinary Resolution of the Bondholders. Provided that if the Issuer shall cease to hold or transfers its PES Licence it shall be deemed to have ceased to carry on the whole or substantially the whole of its business (and none of exceptions (i) to (iii) 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 to, 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).

(2) (a) For the purposes of sub-paragraph (1)(g), 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.

(b) Neither the Issuer nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (1)(g) 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 sub-paragraph (1) above.

(3) For the purposes of these Conditions, a "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):

(a) whose (i) net profits before tax or (ii) gross assets, in each case, represent 20 per cent. or more of the consolidated net profits before tax of the Group or, as the case may be, consolidated gross assets of the Group, in each case as calculated by reference to the latest audited financial statements of such Subsidiary (consolidated in the case of a company which itself has Subsidiaries and which, in the normal course, prepares consolidated accounts) and the then latest audited consolidated financial statements of the Group; or

(b) to which is transferred all or substantially all of the business, undertaking or 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 this sub-paragraph (b) upon publication of its next audited financial statements;

all as more fully defined in the Trust Deed.

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.

11. Enforcement

(1) 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.

(2) 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 under this Condition) as the principal debtor under the Bonds, the Coupons and the Trust Deed of any Subsidiary of the Issuer, subject to (a) the Bonds being unconditionally and irrevocably guaranteed by the Issuer, (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 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.

15. Meetings of Bondholders, modification, waiver and authorisation

(1) 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 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 meeting two or more persons present whatever the principal amount of the Bonds held or represented by them, except that at any meeting, the business of which includes the modification of certain of these 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.

(2) 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 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.

(3) 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 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 in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

(4) 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 Master Trust Deed and the Supplemental 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 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 supplemental deed to the Trust Deed. The 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 are estimated to amount to approximately £196,405,000 and will be used for general corporate purposes of the Issuer and its subsidiaries.

EASTERN GROUP plc

Background

The Company was incorporated on 1st April, 1989. On 31st March, 1990, the Company commenced trading when, pursuant to the Electricity Act 1989, the property, rights and liabilities of the Eastern Electricity Board (the Company's predecessor) were vested in the Company. The name of the Company was changed from Eastern Electricity plc to Eastern Group plc on 1st October, 1994.

Business

Area

The Company 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 20,300 square kilometres. The PES licence continues until at least 2025, although it may be revoked in certain limited circumstances.

The Company's area incorporates all of the counties of Norfolk, Suffolk and Hertfordshire, most of Cambridgeshire, Essex and Bedfordshire, part of Buckinghamshire, a small part of Oxfordshire and the northern suburbs of Greater London. The area has a wide spectrum of manufacturing businesses including car assembly around Luton and Dagenham, oil refining near the Thames estuary and high technology, computing and electronics companies, particularly located around Cambridge. The area includes the ports of Felixstowe, Ipswich, Harwich and Tilbury and the airports at Luton and Stansted. Agricultural and horticultural activities are widespread through the area and there are many companies in food production, processing and distribution. Improvements have been made to the roads and motorways serving the area, such as the M25, the M11 and the A14 link from the Midlands to the east coast ports.

The resident population of the area served by the Company was approximately seven million in 1994 and the Company currently has approximately three million commercial, domestic and industrial customers. The largest volume of units distributed in the financial year ended 31st March, 1995 was to the domestic sector (approximately 42 per cent.). The commercial and industrial sectors accounted for approximately 28 per cent. and 25 per cent. of units distributed, respectively.

Results 1994/95

For the financial year ended 31st March, 1995, the pre-tax profits of the Company on ordinary activities on an historical cost basis were £203.5 million on a turnover of £2,061.1 million.

Regulated Businesses of the Company

The regulated businesses of the Company comprise the distribution of electricity across its distribution system and the supply of electricity within its area. The distribution and supply businesses of the Company are principally regulated by the Electricity Act 1989 and by the conditions of its PES 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 Company and involves the distribution of electricity to consumers over the Company's system of transformers, cables and switchgear. Almost all consumers in the Company's area are connected to the Company'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 Company.

Most of the income of the distribution business is controlled by a formula related to the U.K. Retail Price Index ("RPI"). The formula allows a maximum increase in the average price per unit of the percentage change in RPI less a factor. This factor was set at 2 per cent. for the year commencing 1st April, 1995 and the formula is under review for subsequent years.

The bulk of the Company's assets are currently employed in the distribution business.

(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 via the distribution network gives rise to a cost to the supply business and income to the distribution business.

The Company currently has the sole right to supply almost all of 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, effective from 1st April, 1994. Suppliers that hold the appropriate licence (called a "second tier licence") are allowed to supply electricity to customers whose peak demand exceeds 100kW ("non-franchise customers") in the areas of any of the RECs. All holders of a second tier licence who supply to non-franchise customers in the Company's area must pay charges to the Company's distribution business for the use of its distribution network. From 1st April, 1998, the RECs' supply business will no longer be protected by a franchise and all restrictions will be removed. The DGES is currently considering another phased reduction in the franchise limit with effect from 1st April, 1996.

As from 1st April, 1994, 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 fossil fuel levy. The RPI-Xs term controls the costs of the supply business itself.

The majority of electricity sold by the Company is purchased through the pool (the "Pool"), a market 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 Company has a portfolio of contracts for differences with the major generators as a means of providing hedging against the price fluctuations in the Pool. The portfolio includes agreements with National Power PLC and PowerGen plc for the purchase of coal-backed electricity contracts over the period to 31st March, 1998.

Non Regulated Businesses

(i) *Power Generation*

The Company's PES licence enables it to make a limited investment in electricity generation. Through its wholly owned subsidiary, Eastern Generation Limited, the Company has taken the opportunity 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. Peterborough Power Limited developed a 360MW combined cycle gas turbine generating station which became fully operational in December 1993. Formerly a joint venture with Hawker Siddeley, the Company purchased the outstanding 50 per cent. of the equity of Peterborough Power Limited from Hawker Siddeley Power (Peterborough) Ltd. in September 1994.

In September 1994 the Company signed contracts to build a similar 340MW power station in King's Lynn. Construction work started in October 1994 and the station is expected to become fully operational by the end of 1996.

The Company has 25 per cent. of the voting rights (via redeemable preference shares) in Fibropower Limited, which owns the first U.K. generating station to be powered by chicken litter. The plant is located at Eye in Suffolk and became operational in 1992, with a generating capacity of 12.7MW. The Company also has a 25 per cent. interest on the same basis in a similar plant at Glanford on Humberside, owned by Fibrogen Limited, which became operational in 1993 with a generating capacity of 13.5MW.

In January 1992, Eastern Generation Limited took a 13.5 per cent. equity interest in Barking Power Limited ("Barking Power"). Barking Power was formed for the purpose of undertaking construction and operation of a 1000MW combined cycle gas turbine generating station at Barking Reach in East London. The remaining 86.5 per cent. is owned by Thames Power Limited (51 per cent.), Southern Electric plc (22 per cent.) and London

Electricity plc (13.5 per cent.). Barking Power has obtained a project finance facility of £661 million from a group of commercial banks and the European Investment Bank, on a non-recourse basis. It is anticipated that the plant will commence operations in July 1995 and Barking Power has agreed a long term gas supply contract with British Gas plc. The Company holds contracts for differences for 27.5 per cent. of the output of the station.

(ii) *Gas Supply and Wholesaling*

Eastern Natural Gas had a turnover of over £65 million in the year ended 31st March, 1995 and employed over 100 staff.

The Company's gas portfolio includes three significant purchases. In 1993 the Company purchased £200 million worth of gas over 11 years from the Johnston field in the North Sea. The portfolio was subsequently expanded by the purchase in 1994 of £200 million worth of gas over nine years from the Schooner field in the North Sea and the purchase in 1995 of £400 million worth of gas over 15 years from the Tyne field in the North Sea. Gas from the Schooner field is due onshore in autumn 1996. Part of this gas will be used to supply the new power station in King's Lynn. Supplies from the Johnston field started flowing in October 1994, with wholesale customers taking a substantial proportion and the rest being sold to the Company's retail customers and to other gas retailers. During 1994 and 1995 Eastern Natural Gas has purchased 5.6 per cent. of the equity in the Johnston field, as well as interests in the producing Welland field and the undeveloped Wissey field.

The guaranteed supply of gas has enabled the wholesale supply business to develop rapidly, whilst the retail gas operation saw the number of sites supplied more than double to over 9,500 during the year ended 31st March, 1995.

(iii) *Appliance Retailing*

The Company has a presence in the electrical appliance retailing market through its 36 per cent. holding in the joint venture, Powerhouse Retail Limited, with Southern Electric plc (36 per cent.) and Midlands Electricity plc (28 per cent.). Powerhouse Retail Limited is the U.K.'s third largest retailer in electrical goods, with a total of 309 shops.

The shareholders of Powerhouse Retail Limited have announced that they are seeking a buyer for the business and the Company has made a provision in its accounts for the year ended 31st March, 1995 of £50 million before tax (£40 million after associated tax credits) to cover costs arising from its original investment, goodwill, provision of effective customer service facilities and possible closures.

(iv) *Electrical Contracting*

Over the last two years a number of actions have been taken to reduce operating costs (such as staff reductions and new pay structures) and to refocus on higher margin markets.

Investments

The Company owns 12.5 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 use of, and connection to, the national grid. These charges are subject to price control by the DGES. The Company received a gross dividend from NGH in the financial year ended 31st March, 1995 of £25.2 million (1994: £23.5 million).

On 20th April, 1994, the Directors of The National Grid Holding plc announced their intention to put in hand a study of their options in relation to the future of the National Grid Company plc. They appointed Kleinwort Benson Limited and Herbert Smith to advise them on the matter. Plans for a flotation are well advanced. Although not yet finalised, it is likely that the flotation will involve a distribution of shares in The National Grid Holding plc to the Company's shareholders.

Subsidiaries

The Company, which is the parent company of the Group, has the following main subsidiaries, all of which are wholly-owned (except where shown):

(i) *Eastern Generation Limited*

Eastern Generation Limited was formed to hold the Company's investments in generation. Currently these consist of Peterborough Power Limited, Fibropower Limited, Fibrogen Limited and Barking Power.

(ii) *e gas Limited (75 per cent. owned)*

e gas Limited was formed in 1991 for the purpose of selling gas to commercial and industrial customers using the existing pipeline system of British Gas plc for distribution.

(iii) *Eastern Natural Gas (Offshore) Limited*

This company was formed in 1994 to hold the Company's offshore gas assets.

(iv) *Eastern Corporate Insurance Limited*

(v) *Eastern Electricity Insurance Services Limited*

These companies are incorporated in the Isle of Man and were established to provide certain insurance cover for the Company.

(vi) *Nedalo (UK) Limited (75 per cent. owned)*

Nedalo (UK) Limited is responsible for the sale and maintenance of combined heat and power systems.

Directors and Employees

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

J. C. Smith, CBE, LLD, FEng, FRSE	<i>Chairman</i> Non-executive director of ERA Technology Limited, N M Rothschild & Sons Limited and City of London Sinfonia
J. F. Devaney, BEng, CEng, FIEE, FIMechE	<i>Chief Executive and Managing Director</i> Non-executive director of Midland Bank Plc, Penske Transportation, Inc (USA), Electricity Association Limited and EA Technology Limited
S. L. Connock, BA, MPhil, MIPM	<i>Group Personnel and Corporate Affairs Director</i>
E. E. Anstee, FCA	<i>Group Finance Director</i>
D. C. Mee, BSc (Eng), MBA, CDipAF, CEng, MIEE	<i>Engineering Director</i>
Dr D. J. Swinden, BMet (Hons), PhD, CEng, MIM	<i>Group Strategy Director</i>
W. G. Watson, BSc (Tech), CEng, MIEE	<i>Managing Director of Eastern Generation Limited</i>
A. E. Buxton	<i>Non-Executive Director</i> Non-executive director of Norwich Union Insurance Group
I. D. Coutts, CBE, FCA	<i>Non-Executive Director</i> Senior Partner in Martin & Acock
J. N. Duncan, CA	<i>Non-Executive Director</i> Non-executive director of Olayan Europe Limited and Peel Holdings plc, Deputy chairman of New London Capital plc
Lord Marlesford, DL	<i>Non-Executive Director</i> Non-executive director of Times Newspaper Holdings Limited
M. Redmond	<i>Non-Executive Director</i> Director of Fisons plc
Sir Graham Wilkins, BSc, Hon FRCP	<i>Non-Executive Director</i>

The business address of each of the above is Wherstead Park, Wherstead, Ipswich, Suffolk IP9 2AQ.

The number of employees (full-time equivalents) including Executive Directors as at 31st March, 1995 was 6,168 (6,415 as at 31st March, 1994).

Recent Developments

On 1st June, 1994 the Company made an issue of £350 million 8 $\frac{3}{8}$ per cent. Bonds due 2004 for general business purposes.

At the Annual General Meeting held on 4th August, 1994 the shareholders authorised the Company to purchase up to a maximum of 38,403,150 of its own ordinary shares. On 20th January, 1995 the Company purchased on the market 7,739,402 of such shares, representing 3 per cent. of its issued share capital, for a total consideration of £55,723,694 leaving a balance of 30,663,748 of the Company's ordinary shares within the existing authority. The shares purchased have subsequently been cancelled. As at 19th June, 1995, the authorised share capital of the Company was £200,000,000 divided into 400,000,000 ordinary shares of 50p each and the number of ordinary shares fully paid and allotted was 250,353,417. The authorised share capital also includes one special rights redeemable preference share of £1 which was redeemed at par on 30th March, 1995. The Company has announced that it will seek approval at the Annual General Meeting to be held on 3rd August, 1995 for a new authority to purchase up to a maximum of 37,295,264 of its ordinary shares.

In August 1994 the DGES set a ceiling on the distribution elements of the Company's tariffs which would reduce charges to customers and profit by £350 million over the five years to March 2000. In March 1995 the DGES announced that he was to re-open the review of distribution prices and the proposals for their reduction. At the date of this document his proposals for change are still awaited and are expected in July 1995.

As part of the streamlining of the Company's contracting businesses, in July 1994 the F. W. Cook mechanical services business was sold to its management for net asset value and Aspclear Limited ceased to trade.

The Company has announced that Mr. J. N. Duncan, the Deputy Chairman, is to be the Chairman-designate and will succeed Dr. J. C. Smith, CBE as Chairman on Dr. Smith's retirement in November 1995.

CAPITALISATION OF THE GROUP

The following table sets out the consolidated capital and reserves of the Company and its subsidiaries (the "Group") as at 31st March, 1995 (as extracted from the audited financial statements of the Group for the year ended 31st March, 1995) and the borrowings of the Group at such date (not including the £200,000,000 8½ per cent. Bonds due 2025 now being issued) being the most recent practicable date prior to the date of this document.

	<i>As at 31st March, 1995</i>
	<i>£m</i>
Capital and Reserves	
Called up share capital (Note (2))	125.2
Share premium account	3.0
Other reserves (Note (4))	108.9
Profit and loss account	594.5
Total shareholders' funds	831.6
Minority interests	(0.5)
	831.1
Borrowings (secured)	
Due within one year (Note (5)).. .. .	13.9
Due after more than one year (Note (5))	136.5
	150.4
Borrowings (unsecured)	
Due within one year (Note (6)).. .. .	211.7
Due after more than one year	347.3
	559.0
Total borrowings	709.4

Notes:

- (1) At 31st March, 1995 the Company had investments maturing within one year of £350 million, together with short-term deposits and cash at bank or in hand of £61.6 million. Therefore its net borrowings were £297.8 million.
- (2) At 31st March, 1995 the authorised share capital of the Company was 400,000,000 ordinary shares of 50p each. Its allotted and fully paid share capital was 250,303,785 ordinary shares of 50p each. The authorised share capital also includes one special rights redeemable preference share which was redeemable at par at any time before 31st March, 1995 at the option of the Secretary of State for Trade and Industry after consulting the Company. The share was redeemed on 30th March, 1995. In addition, special provisions in the Articles of Association of the Company are designed to prevent any person (other than a person falling within certain specified exceptions) owning or controlling 15 per cent. or more of the voting share capital in the period up to 31st March, 2000.
- (3) 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 Company 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 Company or any of its subsidiaries had an interest at that date (and, in certain circumstances, land in which the Company 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.
- (4) The reserves comprise the acquisition by the Company of certain shares in The National Grid Holding plc for nil consideration which are shown in the books of account at £97.5 million.
- (5) These amounts are in respect of a finance lease relating to Peterborough Power Limited provided by NatWest Leasing Industries Limited, the lessor being secured by a debenture providing a first fixed and floating charge over the assets of Peterborough Power Limited.
Subsequent to 31st March, 1995, the Company has arranged a new guarantee of the obligations to the lessor and a consequent release of the debenture.
- (6) The borrowings due within one year of £211.7 million as at 31st March, 1995 included £177.2 million of bank borrowing and £34.5 million of Sterling Commercial Paper issued. The borrowings due after more than one year comprise £347.3 million in respect of the 8½ per cent. Bonds due 2004 issued on 12th May, 1994.
- (7) Save as aforesaid, there has been no material change in the issued or authorised share capital of the Company or in the borrowings of the Group since 31st March, 1995.

**AUDITED FINANCIAL INFORMATION
FOR THE YEAR ENDED 31st MARCH, 1995**

**Consolidated historical cost profit and loss account
for the year ended 31st March, 1995**

	Notes	1994/95	1994/95	1993/94	1993/94
		£m	£m	£m	£m
Turnover	2				
Continuing operations		2,025.1		1,846.3	
Acquisitions		36.0	2,061.1	—	1,846.3
Cost of sales			(1,507.5)		(1,335.8)
Gross profit			553.6		510.5
Distribution costs					
Exceptional restructuring and reorganisation costs		(10.0)		(38.3)	
Other		(183.0)	(193.0)	(178.8)	(217.1)
Administrative expenses			(109.3)		(98.4)
Total operating costs			(302.3)		(315.5)
(Loss)/income from interests in associates			(7.0)		0.2
Operating profit	2				
Continuing operations		233.9		195.2	
Acquisitions		10.4	244.3	—	195.2
Loss on disposal of business			(2.1)		—
Provision for loss on operations to be discontinued	3		(50.0)		—
Income from fixed asset investments	4		25.2		23.5
Net interest	5		(13.9)		(15.1)
Premium on bond repurchase			—		(26.8)
Profit on ordinary activities before taxation			203.5		176.8
Taxation			(62.9)		(53.5)
Profit after taxation			140.6		123.3
Minority interests			0.5		—
Profit for the financial year			141.1		123.3
Dividends	6		(70.8)		(59.6)
Profit retained			70.3		63.7
Basic earnings per ordinary share	7		54.8p		45.7p
Adjusted earnings per ordinary share	7		75.0p		62.2p
Dividend per ordinary share	6		28.3p		23.0p

There are no recognised gains or losses other than the profits for the period shown above.

There are no differences between the results disclosed above and those on an unmodified historical cost basis.

Consolidated historical cost balance sheets

		Notes	31st March, 1995	31st March, 1994
			£m	£m
Fixed assets				
Tangible assets			1,044.3	769.0
Investments			139.3	182.8
			<u>1,183.6</u>	<u>951.8</u>
Current assets			869.0	539.3
Current liabilities			(642.5)	(575.2)
Net current assets/(liabilities)			<u>226.5</u>	<u>(35.9)</u>
Total assets less current liabilities			<u>1,410.1</u>	<u>915.9</u>
Bonds (unsecured)	8		(347.3)	—
Other long term liabilities	9		(140.1)	—
Provisions	10		(91.6)	(45.5)
Net assets			<u>831.1</u>	<u>870.4</u>
Capital and reserves				
Called up share capital	11		125.2	132.0
Reserves	12		706.4	738.4
Minority interests			(0.5)	—
			<u>831.1</u>	<u>870.4</u>
Net debt	13		<u>(297.8)</u>	<u>55.5</u>
Gearing			<u>35.8%</u>	<u>(6.4%)</u>

Consolidated cash flow statements

	Notes	1994/95	1993/94
		£m	£m
Net cash inflow from operating activities	17	198.5	431.0
Returns on investments and servicing of finance:			
Interest received		11.6	11.1
Interest paid		(33.3)	(22.1)
Dividends paid		(63.1)	(54.6)
Dividends received from fixed asset investments		19.6	16.6
Net cash outflow from returns on investments and servicing of finance		(65.2)	(49.0)
Taxation:			
Tax paid		(59.6)	(41.7)
Investing activities:			
Purchase of tangible fixed assets		(168.0)	(99.4)
Purchase of subsidiaries		6.6	—
Disinvestment/(investment) in associates		19.7	(18.2)
Other investments	18	(357.0)	(4.0)
Receipts from sales of fixed assets		3.0	1.8
Receipts of customers' contributions		23.9	21.6
Net cash outflow from investing activities		(471.8)	(98.2)
Net cash (outflow)/inflow before financing		(398.1)	242.1
Financing:			
Issue of ordinary share capital		1.7	1.9
Cancellation of ordinary share capital		(99.9)	(45.3)
Repayment of debenture loan and bonds		(194.8)	(32.0)
Repayment of other loans		(29.5)	—
Proceeds from bond issue		347.0	—
Issue of commercial paper		34.5	—
Net cash inflow/(outflow) from financing		59.0	(75.4)
(Decrease)/increase in cash and cash equivalents		(339.1)	166.7

Notes to the Accounts

1. Basis of preparation

The accounts together with the following notes have been extracted from the audited accounts for the year ended 31st March, 1995 which have been prepared on the basis of the accounting policies set out in those accounts and upon which the auditors have given an unqualified opinion. The financial information contained in this Offering Circular does not constitute the Group's statutory accounts. The statutory accounts will be filed with the Registrar of Companies in due course.

2. Turnover, operating profit and net assets by activity

Turnover, all in respect of sales made in the United Kingdom, operating profit and net assets are attributable to the following activities:

	Turnover		Operating profit		Net assets	
	1994/95	1993/94	1994/95	1993/94	1994/95	1993/94
	£m	£m	£m	£m	£m	£m
Distribution	457.1	442.9	207.2	200.4	764.0	741.2
Supply	1,846.1	1,714.7	30.9	19.0	118.9	12.4
Generation	38.5	0.1	13.3	(0.5)	88.8	18.1
Gas	67.3	26.3	2.8	0.5	25.9	0.2
Contracting	44.5	52.2	(1.9)	(5.6)	12.2	12.9
Retailing	7.9	9.4	(2.5)	1.9	33.1	81.5
Other	8.8	4.1	4.5	1.0	17.5	4.5
	<u>2,470.2</u>	<u>2,249.7</u>	<u>254.3</u>	<u>216.7</u>	<u>1,060.4</u>	<u>870.8</u>
Inter activity sales	(409.1)	(420.2)	—	—	—	—
Regulatory income related to prior years.. .. .	—	16.8	—	16.8	—	—
Exceptional restructuring and reorganisation costs	—	—	(10.0)	(38.3)	(34.6)	(32.3)
Unallocated net assets.. .. .	—	—	—	—	363.9	211.1
Unallocated net borrowings	—	—	—	—	(558.6)	(179.2)
	<u>2,061.1</u>	<u>1,846.3</u>	<u>244.3</u>	<u>195.2</u>	<u>831.1</u>	<u>870.4</u>

The Group's share of the results of associates included above is:

Generation	—	—	1.4	1.9	—	7.5
Retailing	—	—	(8.4)	(1.7)	16.2	59.2

The results of acquisitions (Peterborough Power Limited) included in generation above are as follows:

	1994/95	1993/94
	£m	£m
Turnover	36.0	—
Cost of sales	(15.7)	—
Gross profit	20.3	—
Distribution costs	(9.9)	—
Operating profit	<u>10.4</u>	<u>—</u>

Regulatory income related to prior years arises in distribution £nil (1993/94: £4.2 million) and supply £nil (1993/94: £12.6 million). Exceptional restructuring and reorganisation costs include full provision for announced and expected voluntary retirement and severance and arise in distribution £10.0 million (1993/94: £37.7 million) and supply £nil (1993/94: £0.6 million).

3. Provision for loss on operations to be discontinued

	1994/95	1993/94
	£m	£m
Negative goodwill previously taken to reserves	(7.9)	—
Provision for future costs	41.2	—
Unsecured loan and investment write off.. .. .	16.7	—
	<u>50.0</u>	<u>—</u>

On 26th May, 1995 the Company announced, together with its partners Southern Electric plc and Midlands Electricity plc, that a buyer is being sought for their electrical retailing and appliance servicing joint venture, Powerhouse Retail Limited. The partners are currently in discussion with a number of parties regarding the potential sale of the company. A deferred tax asset of £10.0 million has been created to reflect the taxation relief in respect of this provision.

4. Income from fixed asset investments

Included within profit before taxation is £25.2 million dividends receivable from The National Grid Holding plc (1993/94: £23.5 million).

5. Net interest

	1994/95	1993/94
	£m	£m
Interest payable	(41.2)	(25.6)
Interest receivable	27.3	10.5
	<u>(13.9)</u>	<u>(15.1)</u>

6. Dividends

The interim dividend of 8.25p per ordinary share was paid on 21st March, 1995. The proposed final dividend of 20.05p per ordinary share is payable on 2nd October, 1995 to shareholders on the register at close of business on 25th July, 1995.

7. Profit before tax and earnings per share

Earnings per ordinary share have been calculated by dividing the profit for the financial year by the weighted average number of ordinary shares in issue of 257.5 million (1993/94: 269.8 million).

	Profit before tax		Earnings		Earnings per share	
	1994/95	1993/94	1994/95	1993/94	1994/95	1993/94
	£m	£m	£m	£m	£m	£m
Basic earnings	203.5	176.8	141.1	123.3	54.8	45.7
Loss on disposal of business	2.1	—	2.1	—	0.8	—
Provision for loss on operations to be discontinued	50.0	—	40.0	—	15.5	—
Premium on bond repurchase	—	26.8	—	26.8	—	9.9
Restructuring and reorganisation costs	10.0	38.3	10.0	29.1	3.9	10.8
Regulatory income related to prior years.. .. .	—	(16.8)	—	(11.3)	—	(4.2)
Adjusted earnings	<u>265.6</u>	<u>225.1</u>	<u>193.2</u>	<u>167.9</u>	<u>75.0</u>	<u>62.2</u>

All items under earnings are stated net of applicable tax relief.

The Directors believe these adjustments provide a measure of earnings per share which is more meaningful. The dilutive effect of unexercised options is not material.

8. Bonds

On 26th April, 1994, the Company issued £350 million 8¼% bonds, due 2004. The proceeds of the issue are to be used to assist the growth of the Group in the coming years.

9. Other long term liabilities

Other long term liabilities include obligations in respect of finance leases relating to Peterborough Power Limited payable as follows:

	31st March, 1995	31st March, 1994
	£m	£m
Amounts falling due after more than one year:		
Amounts due between one and five years	45.8	—
Amounts due after five years	90.7	—
	<u>136.5</u>	<u>—</u>

10. Provisions

	Restructuring and reorganisation	Pensions	Operations to be discontinued	Other	Total
	£m	£m	£m	£m	£m
Balance at 1st April, 1994	32.3	1.7	—	11.5	45.5
Transferred from profit and loss account	10.0	—	41.2	6.2	57.4
Applied during the year	(7.7)	—	—	(3.6)	(11.3)
Balance at 31st March, 1995	<u>34.6</u>	<u>1.7</u>	<u>41.2</u>	<u>14.1</u>	<u>91.6</u>

11. Called up share capital

	31st March, 1995	31st March, 1994
	£m	£m
Authorised:		
400 million ordinary shares of 50p each	200.0	200.0
One special rights redeemable preference share of £1	—	—
Allotted and fully paid:		
250.3 million (1993/94: 264.1 million) ordinary shares of 50p each	<u>125.2</u>	<u>132.0</u>

677,202 ordinary shares were allotted during the year in respect of options exercised for a total consideration of £1.7 million. 14,439,402 ordinary shares were cancelled during the year following the purchase of these shares by the Company from 16th March, 1994 to 18th April, 1994 (6,700,000 shares) and on 20th January, 1995 (7,739,402 shares). The cancellations are reflected in the share capital at 31st March, 1995.

12. Reserves

	Share Premium Account	Revaluation Reserve	Capital Redemption Reserve	Capital Reserve	Statutory Reserve	Profit and Loss Account	Total
	£m	£m	£m	£m	£m	£m	£m
Balance at 1st April, 1994	1.7	97.5	3.4	7.9	0.6	627.3	738.4
Share issues under share option schemes	1.3	—	—	—	—	—	1.3
Purchase of own shares	—	—	7.2	—	—	(99.9)	(92.7)
Goodwill written off on acquisitions	—	—	—	—	—	(5.1)	(5.1)
Transfer to profit and loss account	—	—	—	(7.9)	—	2.1	(5.8)
Transfer between reserves	—	—	—	—	0.2	(0.2)	—
Retained profit for the year	—	—	—	—	—	70.3	70.3
Balance at 31st March, 1995	<u>3.0</u>	<u>97.5</u>	<u>10.6</u>	<u>—</u>	<u>0.8</u>	<u>594.5</u>	<u>706.4</u>

13. Net debt

	31st March, 1995	31st March, 1994
	£m	£m
Investments (included in current assets)	350.0	—
Short term deposits	44.7	201.0
Cash at bank	16.9	33.7
Bank borrowings	(177.2)	(11.2)
Commercial paper	(34.5)	—
Bonds and debentures	(347.3)	(168.0)
Net obligations in respect of finance leases	(150.4)	—
	<u>(297.8)</u>	<u>55.5</u>

14. Capital commitments

Authorised capital expenditure at 31st March, 1995 totalled £179.1 million (31st March, 1994: £37.3 million), the main reason for the significant increase being commitments in respect of the construction of the King's Lynn generating station.

The Group is committed to subscribe for a further £1.7 million during the period to September 1995 relating to its 13.475 per cent. holding of the loan stock of Barking Power Ltd.

As at 31st March, 1994, the Company entered into agreements to provide a £35 million leasing facility to South West Water Services Ltd. which has yet to be drawn upon to any significant extent.

15. Significant post balance sheet events

On 8th June, 1995, the Company announced the issue of £200 million 8½% Bonds due 2025. The proceeds of the issue are to be used to assist the growth of the Group in coming years, particularly in financing capital expenditure in the electricity distribution business.

16. Reconciliation of movement in shareholders' funds

	£m
Profit for the financial year	141.1
Dividends	(70.8)
	<u>70.3</u>
New share capital subscribed	1.7
Purchase of share capital	(99.9)
Goodwill adjustment	(3.0)
Release of capital reserve	(7.9)
	<u>(38.8)</u>
Net reduction in shareholders' funds	870.4
Opening shareholders' funds	<u>831.6</u>
Closing shareholders' funds	<u>831.6</u>

17. Reconciliation of operating profit to net cash inflow from operating activities

	31st March, 1995	31st March, 1994
	£m	£m
Operating profit	244.3	195.2
Loss/(income) from interests in associates	7.0	(0.2)
Depreciation	55.7	51.3
Movements in provisions	4.9	16.5
Increase in stocks	(3.3)	(0.8)
(Increase)/decrease in debtors	(112.0)	48.9
Increase in creditors	1.9	120.1
	<u>198.5</u>	<u>431.0</u>
Net cash inflow from operating activities	<u>198.5</u>	<u>431.0</u>

18. Other investments

Other investments include the short term reinvestment of the proceeds of the Group's £350 million bond issue.

19. Current cost information

The Group current cost profit before taxation is £152.2 million (1993/94: £125.9 million) and current cost net assets are £1,808.4 million (1993/94: £1,813.3 million).

20. Units distributed

	1994/95	1993/94
	<i>millions of units</i>	
Domestic	12,572	12,806
Commercial	8,489	8,361
Industrial	7,379	7,194
Other	1,458	1,453
	<u>29,898</u>	<u>29,814</u>

21. Annual Report and Accounts

The 1994/95 Annual Report and Accounts will be posted to shareholders in mid July 1995. Copies may be obtained from the Company Secretary, Eastern Group plc, Wherstead Park, Wherstead, Ipswich, Suffolk IP9 2AQ.

22. Annual General Meeting

The Annual General Meeting of Eastern Group plc will be held at The Cambridge Corn Exchange, 3 Parsons Court, Wheeler Street, Cambridge CB2 3QB on 3rd August, 1995 at 2.30 p.m.

23. Authority to purchase ordinary shares

At a meeting of a Board Committee of Eastern Group plc held on 23rd June, 1995 it was agreed that, at the Annual General Meeting to be held on 3rd August, 1995, a resolution should be put to the shareholders which, if approved, would give the Company unconditional authority, under s.163(3) of the Companies Act 1985, to make market purchases of ordinary shares of 50p each, provided that:

- the maximum number of ordinary shares authorised to be acquired is 37,295,264;
- the minimum price which may be paid will be 50 pence per ordinary share and the maximum price which may be paid will be an amount equal to 105 per cent. of the average of the middle market quotation for the ordinary shares derived from the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the ordinary shares are contracted to be purchased; and
- the authority shall expire 15 months from the date of the resolution or, if earlier, at the next Annual General Meeting of the Company.

UNITED KINGDOM TAXATION

The United Kingdom Government has announced proposals radically to reform the taxation of the returns from debt securities. Under the proposals, all profits and losses of whatever nature will fall to be taxed as income on an accruals or a mark to market basis. The regime may not apply to small non-corporate investors. The Government has announced that it will consult on the proposals during June 1995 and a decision whether or not to implement them will be made very shortly thereafter. The proposals, if proceeded with, will take effect from the announcement of that decision. There may be transitional rules to deal with bonds held at the time of the announcement.

The comments below are of a general nature based on the Company's understanding of current United Kingdom law and Inland Revenue practice and are not intended to be exhaustive.

The comments relate to the position of persons who are the absolute beneficial owners of their Bonds and Coupons appertaining thereto and may not apply to certain classes of persons such as dealers.

Prospective Bondholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek independent advice.

1. The Bonds will constitute "quoted Eurobonds" within the terms of section 124 of the Income and Corporation Taxes Act 1988 provided they remain in bearer form and continue to be quoted on a "recognised stock exchange" within the meaning of section 841 of that Act. Accordingly, payments of interest on the Bonds 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 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 though paid without withholding or deduction. However, under Inland Revenue Extra Statutory Concession B13, the interest 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.

4. The Finance Act 1995 contains provisions which provide that from April 1996 interest on the Bonds received without deduction or withholding will not be chargeable to United Kingdom tax in the hands of a Bondholder who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received to which the Bonds are attributable. There are certain exemptions for interest received by certain categories of agent.

5. Bondholders should note that the provisions relating to additional amounts referred to in "Conditions of the Bonds—8. Taxation" above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest 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. The Bonds will constitute "qualifying corporate bonds" within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal of the Bonds for the purposes of United Kingdom taxation of chargeable gains.

7. A transfer of a Bond by a Bondholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable may give rise to a charge to United Kingdom tax on income in respect of an amount representing interest on the Bond which has accrued since the preceding interest payment date.

8. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of a Bond or on its transfer by delivery.

SUBSCRIPTION AND SALE

Barclays de Zoete Wedd Limited and Cazenove & Co. (together, the "Managers") have, pursuant to a Subscription Agreement dated 29th June, 1995, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Bonds at 100.73 per cent. of their principal amount. The Issuer has agreed to pay to the Managers a selling commission of 1.875 per cent., and a combined management and underwriting commission of 0.625 per cent., of such principal amount. An amount of up to £55,000 will also be paid by way of contribution towards certain of the expenses of the Managers. The Subscription Agreement entitles Barclays de Zoete Wedd Limited on behalf of the Managers to terminate it in certain circumstances prior to payment being made 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 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. 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 of the Managers has agreed that (1) prior to 19th June, 1995, it did not offer or sell in the United Kingdom or elsewhere, by means of any document, any Bonds prior to application for listing of the Bonds being made in accordance with Part IV of the Financial Services Act 1986, other than in circumstances which did not constitute an offer to the public within the meaning of the Companies Act 1985 and, on and after 19th June, 1995, it did not offer or sell and will not offer and sell any Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the Financial Services Act 1986 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 Financial Services Act 1986, (2) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 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 to any person in the United Kingdom any document received by it in connection with the issue of the Bonds, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Financial Services Act 1986, if that person 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 lawfully be issued or passed on.

Each of the Managers has agreed that it will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required for the offer, purchase or sale by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers, purchases or sales and that it will, to the best of its knowledge and belief, comply with all such laws and regulations.

GENERAL INFORMATION

Listing

The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their nominal amount (excluding accrued interest). Transactions will normally be effected for settlement in sterling and for delivery on the fifth business day after the date of the transaction. It is anticipated that such listing will be granted on 3rd July, 1995, subject only to the issue of the Temporary Global Bond initially representing the Bonds. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

Euroclear and Cedel

The Bonds have been accepted for clearance through Cedel and Euroclear with a Common Code number 5820910. The ISIN is XS0058209106.

Significant or Material Change

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 annual accounts) and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31st March, 1995 (being the date of its last published accounts).

Litigation

There are no legal or arbitration proceedings involving the Issuer or any other member of the Group which may have or have had during the 12 months prior to the date hereof a significant effect on the financial position of the Issuer or the Group nor are the Directors aware that any such proceedings are pending or threatened.

Auditors and Financial Information

The auditors of the Group are Price Waterhouse Chartered Accountants, 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.

Audited Financial Information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (the "Act"). Statutory accounts for the four financial years ended 31st March, 1994 have been delivered to the Registrar of Companies in England and Wales. The Issuer's auditors have made a report under section 235 of the Act on the statutory accounts for each such financial year which was 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.

Documents Available for Inspection

Copies of the following documents may be inspected at the offices of Slaughter and May at 35 Basinghall Street, London EC2V 5DB during usual business hours on any weekday (Saturdays and public holidays excepted) during the period of 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) the financial statements of the Group in respect of the two financial years ended 31st March, 1995;
- (iii) the Master Trust Deed;
- (iv) drafts, subject to modification, of each of the Supplemental Trust Deed (which contains the forms of the Temporary Global Bond, the definitive Bonds and the Coupons) and the Paying Agency Agreement; and
- (v) the Subscription Agreement.

REGISTERED OFFICE OF THE ISSUER

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PRINCIPAL PAYING AGENT

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BGSS Depositary Services
8 Angel Court
Throgmorton Street
London EC2R 7HT

PAYING AGENTS

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To the Managers and the Trustee

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LISTING AGENT

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