

OFFERING CIRCULAR
Dated 22nd May, 2002



LONDON ELECTRICITY GROUP PLC

(incorporated and registered with limited liability in England and Wales under registration number 02366852)

and

LPN

Powering London

LONDON POWER NETWORKS PLC

(incorporated and registered with limited liability in England and Wales under registration number 03929195)

€3,000,000,000

Euro Medium Term Note Programme

Under this €3,000,000,000 Euro Medium Term Note Programme (the "**Programme**"), London Electricity Group plc ("**LEG**") and London Power Networks plc ("**LPN**" and, together with LEG, the "**Issuers**" and each an "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer of such Notes (the "**relevant Issuer**") and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed €3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described in this Offering Circular.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Notes issued under the Programme during the period of 12 months from the date of this Offering Circular to be admitted to the official list maintained by the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's market for listed securities. Admission to the Official List together with admission to the London Stock Exchange's market for listed securities constitute official listing on the London Stock Exchange. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "Terms and Conditions of the Notes") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the Notes of such Tranche.

The Programme provides that Notes may be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer. The Issuers may also issue unlisted Notes.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. See "Form of the Notes" for a description of the manner in which Notes will be issued.

The relevant Issuer and the Trustee (as defined herein) may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event (in the case of Notes admitted to the Official List) supplementary listing particulars or further listing particulars, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes

Arranger

BNP PARIBAS

Dealers

BARCLAYS CAPITAL

BNP PARIBAS

HSBC

Each of the Issuers accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of each Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. Any reference in this Offering Circular to Listing Particulars (as defined below) means this Offering Circular excluding all information incorporated by reference. The Issuers have confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the Listing Particulars to satisfy the requirements of the Financial Services and Markets Act 2000 or the listing rules of the UK Listing Authority. The Issuers believe that none of the information incorporated in this Offering Circular by reference conflicts in any material respect with the information included in the Listing Particulars.

A copy of this Offering Circular, which comprises the listing particulars approved by the UK Listing Authority as required by the Financial Services and Markets Act 2000 (the "Listing Particulars") in relation to Notes admitted to the Official List and admitted to trading on the London Stock Exchange's market for listed securities and issued during the period of 12 months from the date of this Offering Circular, has been delivered for registration to the Registrar of Companies in England and Wales as required by section 83 of that Act. Copies of each Pricing Supplement (in the case of Notes to be admitted to the Official List) will be available from FT Business Research Centre, operated by FT Electronic Publishing at Fitzroy House, 13-15 Epworth Street, London EC2A 4DL and from the specified office set out below of each of the Paying Agents (as defined below).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference"). This Offering Circular shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular but not part of the Listing Particulars.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuers in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuers in connection with the Programme.

No person is or has been authorised by the Issuers or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Trustee or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuers, the Trustee or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the relevant Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuers, the Trustee or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuers during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should refer, inter alia, to the most recently published documents incorporated by reference into this Offering Circular.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuers, the Trustee and the Dealers do not represent that this Offering Circular may be

lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Trustee or the Dealers (save for the approval of this Offering Circular as listing particulars by the UK Listing Authority and delivery of a copy of this Offering Circular to the Registrar of Companies in England and Wales) which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in Japan, the United Kingdom and the United States (see "Subscription and Sale").

All references in this document to "U.S. dollars", "U.S.\$" and "\$" refer to United States dollars, to "Sterling" and "£" refer to pounds sterling and to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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In connection with the issue and distribution of any Tranche of Notes, the Dealer (if any) disclosed as the stabilising manager in the applicable Pricing Supplement or any person acting for it may over-allot or effect transactions with a view to supporting the market price and on the same terms and conditions of the Notes of the Series (as defined below) of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the stabilising manager or any person acting for it to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular (provided, however, that such incorporated documents do not form a part of the Listing Particulars):

- (a) the most recently published audited annual financial statements (consolidated where applicable) and, if published later, the most recently published interim financial statements (if any, and consolidated where applicable) of each Issuer (see "*General Information*" for a description of the financial statements currently published by each Issuer); and
- (b) all supplements or amendments to this Offering Circular circulated by the Issuers from time to time, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular (but not the Listing Particulars) to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuers will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to either Issuer at its office set out at the end of this Offering Circular. In addition, such documents will be available from the principal office in England of BNP Paribas for Notes admitted to the Official List.

Each Issuer has severally undertaken to the Dealers in the Programme Agreement (as defined in "*Subscription and Sale*") to comply with sections 81 and 83 of the Financial Services and Markets Act 2000.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, an Issuer may from time to time issue Notes denominated in any currency, subject as set out herein. A summary of the terms and conditions of the Programme and the Notes appears below. The applicable terms of any Notes will be agreed between the relevant Issuer and the relevant Dealer prior to the issue of the Notes and will be set out in the Terms and Conditions of the Notes endorsed on, attached to, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Form of the Notes*".

This Offering Circular and any supplement will only be valid for listing Notes on the Official List during the period of 12 months from the date of this Offering Circular in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Notes previously or simultaneously issued under the Programme, does not exceed €3,000,000,000 or its equivalent in other currencies. For the purpose of calculating the euro equivalent of the aggregate nominal amount of Notes issued under the Programme from time to time:

- (a) the euro equivalent of Notes denominated in another Specified Currency (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be determined, at the discretion of the relevant Issuer, either as of the date on which agreement is reached for the issue of such Notes or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of euro against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the relevant Issuer on the relevant day of calculation;
- (b) the euro equivalent of Dual Currency Notes, Index Linked Notes and Partly Paid Notes (each as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") shall be calculated in the manner specified above by reference to the original nominal amount on issue of such Notes (in the case of Partly Paid Notes regardless of the subscription price paid); and
- (c) the euro equivalent of Zero Coupon Notes (as specified in the applicable Pricing Supplement in relation to the Notes, described under "*Form of the Notes*") and other Notes issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the relevant Issuer for the relevant issue.

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuers: London Electricity Group plc ("**LEG**")
London Power Networks plc ("**LPN**")

Description: Euro Medium Term Note Programme

Arranger: BNP Paribas

Dealers: Barclays Bank PLC, BNP Paribas and HSBC Bank plc
and any other Dealers appointed in accordance with the Programme Agreement.

Certain Restrictions: Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.

Swiss Francs

Issues of Notes denominated in Swiss francs or carrying a Swiss franc-related element with a maturity of more than one year (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8th November, 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2nd December, 1996. Under the said regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the "**Swiss Dealer**"), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24th March, 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date of the relevant Notes.

Notes with a maturity of less than one year

Notes issued on terms that they must be redeemed before their first anniversary will constitute a contravention of section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Trustee: Deutsche Trustee Company Limited

Issuing and Principal Paying Agent: Deutsche Bank AG London

Programme Size: Up to €3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuers may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Issuer and the relevant Dealer.
Redenomination:	The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro.
Maturities:	Such maturities as may be agreed between the relevant Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Issuer and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the relevant Issuer and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the relevant Issuer and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Issuer and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	<p>Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the relevant Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Issuer and the relevant Dealer.</p>

Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Issuer and the relevant Dealer.</p> <p>Notes issued by LPN may also be redeemed at the option of the Noteholders in certain circumstances following the occurrence of a Restructuring Event, as more particularly set out in Condition 6(e).</p> <p>The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement.</p> <p>Notes issued on terms that they must be redeemed before their first anniversary are subject to restrictions on their denomination and distribution, see "<i>Certain Restrictions - Notes with a maturity of less than one year</i>" above.</p>
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealer save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions - Notes with a maturity of less than one year</i> " above.
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed within the United Kingdom, subject as provided in Condition 7. In the event that any such deduction is made, the relevant Issuer will, save in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 9.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the relevant Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the relevant Issuer, from time to time outstanding.
Listing:	Application has been made for Notes issued under the Programme to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the relevant Issuer and the relevant Dealer in relation to each Series.

Unlisted Notes may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and, if so, on which stock exchange(s).

Governing Law:

The Notes will be governed by, and construed in accordance with, English law.

Selling Restrictions:

There are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in Japan, the United Kingdom and the United States and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

FORM OF THE NOTES

The Notes of each Series will be in bearer form, with or without receipts, interest coupons and talons attached. Notes will be issued outside the United States in reliance on Regulation S under the Securities Act ("*Regulation S*").

Each Tranche of Notes will initially be represented by either a temporary global note (a "*Temporary Global Note*") or a permanent global note (a "*Permanent Global Note*" and, together with a Temporary Global Note, the "*Global Notes*") as indicated in the applicable Pricing Supplement, which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the "*Common Depository*") for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("*Euroclear*") and Clearstream Banking, société anonyme ("*Clearstream, Luxembourg*"). Whilst any Note is represented by a Temporary Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

In respect of each Tranche initially represented by a Temporary Global Note, on and after the date (the "*Exchange Date*") which is 40 days after such Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein for either (i) interests in a Permanent Global Note of the same Series or (ii) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Notes. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached upon either (i) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "*Exchange Event*" means that (i) an Event of Default (as defined in Condition 9) has occurred and is continuing, (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the relevant Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form and a certificate to such effect signed by two Authorised Persons (as defined in the Trust Deed) of the relevant Issuer is given to the Trustee. The relevant Issuer will promptly give notice to the Noteholders in accordance with Condition 13 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the relevant Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and an ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period applicable to the Notes of such Tranche.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the relevant Issuer, the Trustee and their agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the relevant Issuer, the Trustee, and their agents as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "*Noteholder*" and "*holder of Notes*" and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the relevant Issuer, the Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the relevant Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and the failure is continuing.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.

[Date]

[London Electricity Group plc/London Power Networks plc]
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the €3,000,000,000
Euro Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions set forth in the Offering Circular dated 22nd May, 2002. This Pricing Supplement is supplemental to and must be read in conjunction with such Offering Circular.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs.]

[If the Notes must be redeemed before the first anniversary of their date of issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1. Issuer: [London Electricity Group plc/London Power Networks plc]
2. (i) Series Number: []
(ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)
3. Specified Currency or Currencies: []
4. Aggregate Nominal Amount:
(i) Series: []
(ii) Tranche: []
5. (i) Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date]] *(in the case of fungible issues only, if applicable)*
(ii) Net Proceeds: []
(Required only for listed issues)
6. Specified Denominations: []
7. (i) Issue Date: []
(ii) Interest Commencement Date: []
8. Maturity Date: *[Fixed rate - specify date/
Floating rate - Interest Payment Date falling in or nearest to
[specify month]]*

9. Interest Basis: [[] per cent. Fixed Rate]
 [[LIBOR/EURIBOR] +/- [] per cent. Floating Rate]
 [Zero Coupon]
 [Index Linked Interest]
 [Dual Currency Interest]
 [*specify other*]
 (further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
 [Index Linked Redemption]
 [Dual Currency Redemption]
 [Partly Paid]
 [Instalment]
 [*specify other*]
11. Change of Interest Basis or Redemption/Payment Basis: [*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12. Put/Call Options: [Investor Put]
 [Issuer Call]
 [(further particulars specified below)]
13. Status of the Notes: Senior
14. Listing: [London/ [*specify other*/None]
15. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. **Fixed Rate Note Provisions** [Applicable/Not Applicable]
 (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
- (i) Rate(s) of Interest: [] per cent. per annum [payable [annually/semi-annually/quarterly] in arrear]
 (*If payable other than annually, consider amending Condition 4*)
- (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date]/[*specify other*]
 (*NB: This will need to be amended in the case of long or short coupons*)
- (iii) Fixed Coupon Amount(s): [] per [] in nominal amount
- (iv) Broken Amount(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount*]
- (v) Day Count Fraction: [30/360 or Actual/Actual (ISMA) or *specify other*]
- (vi) Determination Date(s): [] in each year
 [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. NB: This will need to be amended in the case of regular interest payment dates which are not of equal duration. NB: Only relevant where Day Count Fraction is Actual/Actual (ISMA)*]

(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]

17. **Floating Rate Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Specified Period(s)/Specified Interest Payment Dates: []

(ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]

(iii) Additional Business Centre(s): []

(iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
[]

(v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []

(vi) Screen Rate Determination:

— Reference Rate: []
(Either LIBOR, EURIBOR or other, although additional information is required if other - including fallback provisions in the Agency Agreement)

— Interest Determination Date(s): []
(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)

— Relevant Screen Page: []
(In the case of EURIBOR, if not Telerate Page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)

(vii) ISDA Determination:

— Floating Rate Option: []

— Designated Maturity: []

— Reset Date: []

(viii) Margin(s): [+/-] [] per cent. per annum

(ix) Minimum Rate of Interest: [] per cent. per annum

- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: [Actual/365
Actual/365 (Fixed)
Actual/365 (Sterling)
Actual/360
30/360
30E/360
Other]
(See Condition 4 for alternatives)
- (xii) Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: []
18. **Zero Coupon Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Any other formula/basis of determining amount payable: []
- (iv) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 6(f)(iii) and 6(k) apply/specify other]
(Consider applicable day count fraction if not U.S. dollar denominated)
19. **Index Linked Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the principal and/or interest due: []
- (iii) Provisions for determining coupon where calculation by reference to Index and/or Formula is impossible or impracticable: []
- (iv) Specified Period(s)/Specified Interest Payment Dates: []
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/specify other]
- (vi) Additional Business Centre(s): []
- (vii) Minimum Rate of Interest: [] per cent. per annum

(viii) Maximum Rate of Interest: [] per cent. per annum

(ix) Day Count Fraction: []

20. **Dual Currency Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Rate of Exchange/method of calculating Rate of Exchange: [give details]

(ii) Calculation Agent, if any, responsible for calculating the principal and/or interest payable: []

(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []

(iv) Person at whose option Specified Currency(ies) is/are payable: []

PROVISIONS RELATING TO REDEMPTION

21. **Issuer Call** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Optional Redemption Date(s): []

(ii) Optional Redemption Amount of each Note and method, if any, of calculation of such amount(s): []

(iii) If redeemable in part: []
(1) Minimum Redemption Amount:

(2) Maximum Redemption Amount: []

(iv) Notice period (if other than as set out in the Conditions): []

22. **Investor Put** [Applicable/Not Applicable]
(This item relates to Condition 6(d). If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i) Optional Redemption Date(s): []

(ii) Notice period (if other than as set out in the Conditions): []

23. Optional Redemption Amounts of each Note and method, if any, of calculation of such amount(s): []
(This item relates to Condition 6(d) (if applicable) and, where LPN is the Issuer, to Condition 6(e))
24. Final Redemption Amount of each Note: [Nominal Amount/specify other/see Appendix]
25. Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 6(f)): []

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
 [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
 [Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
27. Additional Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details]
(Note that this item relates to the place of payment and not Interest Period end dates to which items 17(iii) and 19(vi) relate)
28. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
29. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details. NB: new forms of Global Note may be required for Partly Paid issues.]
30. Details relating to Instalment Notes:
- (i) Instalment Amount(s): [Not Applicable/give details]
- (ii) Instalment Date(s): [Not Applicable/give details]

31. Redenomination applicable: Redenomination [not] applicable
(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))

32. Other terms or special conditions: [Not Applicable/give details]

DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/give names]

(ii) Stabilising Manager (if any): [Not Applicable/give name]

34. If non-syndicated, name of relevant Dealer: []

35. Whether TEFRA D or TEFRA C rules applicable or TEFRA rules not applicable: [TEFRA D/TEFRA C/TEFRA not applicable]

36. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

37. Any clearing system(s) other than Euroclear or Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

38. Delivery: Delivery [against/free of] payment

39. Additional Paying Agent(s) (if any): []

ISIN: []
Common Code: []
[]

LISTING APPLICATION

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the €3,000,000,000 Euro Medium Term Note Programme of London Electricity Group plc and London Power Networks plc.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

Duly authorised

If the applicable Pricing Supplement specifies any modification to the Terms and Conditions of the Notes

as described herein, it is envisaged that, to the extent that such modification relates only to Conditions 1, 4, 5, 6 (except Condition 6(b)), 10, 12, 13 (insofar as such Notes are not listed or admitted to trade on any stock exchange) or 17, they will not necessitate the preparation of supplementary Listing Particulars. If the Terms and Conditions of the Notes of any Series are to be modified in any other respect, supplementary Listing Particulars will be prepared, if appropriate.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the relevant Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto these terms and conditions. The applicable Pricing Supplement in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following terms and conditions, replace or modify the following terms and conditions for the purpose of such Notes. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Pricing Supplements which will specify which of such terms are to apply in relation to the relevant Notes.

Provisions in square brackets preceded by an asterisk are applicable only to Notes issued by London Electricity Group plc. Provisions in square brackets preceded by two asterisks are applicable only to Notes issued by London Power Networks plc.

This Note is one of a Series (as defined below) of Notes issued by the Issuer (the "*Issuer*") named in the applicable Pricing Supplement (as defined below) constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the "*Trust Deed*") dated 22nd May, 2002 made between London Power Networks plc ("*LPN*"), London Electricity Group plc ("*LEG*") and Deutsche Trustee Company Limited (the "*Trustee*", which expression shall include any successor as Trustee).

References herein to the "*Notes*" shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a "*Global Note*"), units of the lowest Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an agency agreement (such agency agreement as amended and/or supplemented and/or restated from time to time, the "*Agency Agreement*") dated 22nd May, 2002 and made between LPN, LEG, the Trustee and Deutsche Bank AG London as issuing and principal paying agent and agent bank (the "*Agent*", which expression shall include any successor agent) and the other paying agents named therein (together, unless the context otherwise requires, with the Agent, the "*Paying Agents*", which expression shall include any additional or successor paying agents).

Interest bearing definitive Notes have interest coupons ("*Coupons*") and, if indicated in the applicable Pricing Supplement, talons for further Coupons ("*Talons*") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts ("*Receipts*") for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The Pricing Supplement for this Note (or the relevant provisions thereof) is attached to or endorsed on this Note and supplements these terms and conditions (these "*Conditions*") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Note. References to the "*applicable Pricing Supplement*" are to the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the "*Noteholders*", which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the holders of the Receipts (the "*Receiptholders*") and the holders of the Coupons (the "*Couponholders*", which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, "*Tranche*" means Notes which are identical in all respects (including as to listing) and "*Series*" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing) except for their respective Aggregate Nominal Amounts, Issue Dates, Interest Commencement

Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being (at 22nd May, 2002) at Winchester House, 1 Great Winchester Street, London EC2N 2DB and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents save that, if this Note is an unlisted Note of any Series, the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more unlisted Notes of that Series and such Noteholder must produce evidence satisfactory to the Issuer and the relevant Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Pricing Supplement.

Definitive Notes are issued with Coupons and, if applicable, a Talon attached, unless they are Zero Coupon Notes in which case references to Coupons, Talons and Couponholders in these Conditions are not applicable.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, any Paying Agent and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest or proven error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Agent and the Trustee.

2. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Trust Deed) the Issuer will*[, and will procure that each of its Principal Subsidiaries (as defined in Condition 9(c)) will,] ensure that no Relevant Indebtedness (as defined below) of the Issuer*[or any Principal Subsidiary] **[or any Relevant Subsidiary (as defined in Condition 6(e)(iv)(g))] or of any other person and no guarantee by the Issuer*[or any Principal Subsidiary] **[or any Relevant Subsidiary] of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a “*Security Interest*”) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer*[or any Principal Subsidiary] **[or any Relevant Subsidiary] unless the Issuer shall, before or at the same time as the creation of the Security Interest, take any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes, the Receipts, 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 Notes, the Receipts, the Coupons and the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

save that the Issuer*[or any Principal Subsidiary] **[or any Relevant Subsidiary] may create or have outstanding a Security Interest in respect of any Relevant Indebtedness and/or any guarantees given by the Issuer*[or any Principal Subsidiary] **[or any Relevant Subsidiary] in respect of any Relevant Indebtedness of any person (without the obligation to provide a Security Interest or guarantee or other arrangement in respect of the Notes, the Receipts, the Coupons and the Trust Deed as aforesaid) where (1) such Relevant Indebtedness has an initial maturity of not less than 15 years and is of a maximum aggregate amount outstanding at any time not exceeding the greater of £200,000,000 and 20 per cent. of the Capital and Reserves (as defined below) or (2) such Security Interest is provided in respect of a company becoming a Subsidiary of the Issuer after the date on which agreement is reached to issue the first Tranche of the Notes and where such Security Interest existed at the time that company becomes a Subsidiary (as defined below) of the Issuer (provided that such Security Interest was not created in contemplation of such acquisition and the principal amount secured at the time of such acquisition is not subsequently increased).

For the purposes of these Conditions:

“*Capital and Reserves*” means the aggregate of:

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

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

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

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

“*Relevant Indebtedness*” means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or represented by bonds, notes, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and which, with the agreement of the person issuing the same, are quoted, listed or ordinarily dealt in on any stock exchange or recognised over-the-counter or other securities market, but shall in any event not include Non-recourse Indebtedness (as defined in Condition 9(c));

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

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

The Trust Deed provides that the Trustee may rely on certificates or reports from the Auditors in accordance with the provisions of the Trust Deed notwithstanding that any such certificate or report and/or any engagement letter or other document entered into by the Trustee and the Auditors in connection therewith contains any monetary or other limit on the liability of the Auditors in respect thereof.

4. INTEREST

(a) *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in these Conditions, “*Fixed Interest Period*” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“*Day Count Fraction*” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(a):

- (i) if “Actual/Actual (ISMA)” is specified in the applicable Pricing Supplement:
- (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
- (B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (ii) if “30/360” is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

For the purposes of these Conditions:

“**Determination Period**” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“**sub-unit**” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Notes and Index Linked Interest Notes*

(i) *Interest Payment Dates*

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

For the purposes of these Conditions, "**Business Day**" means a day which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Pricing Supplement; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the "**TARGET System**") is open.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Pricing Supplement.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

- (1) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (2) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate ("**LIBOR**") or on the Euro-zone inter-bank offered rate ("**EURIBOR**"), the first day of that Interest Period or (ii) in any other case, as specified in the applicable Pricing Supplement.

For the purposes of this sub-paragraph (A), “*Floating Rate*”, “*Calculation Agent*”, “*Floating Rate Option*”, “*Designated Maturity*” and “*Reset Date*” have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after determining the same.

The Agent will calculate the amount of interest (the “*Interest Amount*”) payable on the Floating Rate Notes or Index Linked Interest Notes in respect of each Specified Denomination for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 4(b):

- (A) if “Actual/365” or “Actual/Actual” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (x) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (y) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
 - (B) if “Actual/365 (Fixed)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365;
 - (C) if “Actual/365 (Sterling)” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
 - (D) if “Actual/360” is specified in the applicable Pricing Supplement, the actual number of days in the Interest Period divided by 360;
 - (E) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (x) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (y) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (F) if “30E/360” or “Eurobond Basis” is specified in the applicable Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed or by which the Notes have been admitted to trading and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed or by which the Notes have been admitted to trading and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

- (vi) *Determination or Calculation by Trustee*

If for any reason at any relevant time the Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraph (ii)(A) or (B) above or as otherwise specified in the applicable Pricing Supplement, as the case may be, and in each case in accordance with paragraph (iv) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee

shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent or the Calculation Agent, as applicable.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), whether by the Agent or, if applicable, the Calculation Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Noteholders, the Receiptholders or the Couponholders shall attach to the Agent or, if applicable, the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Interest on Dual Currency Interest Notes*

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Pricing Supplement.

(d) *Interest on Partly Paid Notes*

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement.

(e) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

5. PAYMENTS

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively); and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) *Presentation of definitive Notes, Receipts and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph (a) above against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "*Long Maturity Note*" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
 - (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
 - (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.
- (e) *Exercise of put option*

To exercise the right to require the Issuer to redeem (or, in the case of Condition 6(e), to redeem or, at the option of the Issuer, purchase or procure the purchase of) this Note pursuant to Conditions 6(d) or 6(e) (if applicable), the holder of this Note must comply with the following provisions.

- (i) If this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, the Noteholder must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period specified in Condition 6(d), Condition 6(e) or the applicable Pricing Supplement (as the case may be), a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "*Put Notice*") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) complying with the requirements of this Condition 5 to which payment is to be made, accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

The Paying Agent to which such Note and Put Notice are delivered shall issue to the Noteholder concerned a non-transferable receipt in respect of the Note so delivered. Payment in respect of any Note so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, by transfer for value on the Optional Redemption Date or the relevant Put Date (as the case may be) to that bank account or by cheque sent by first class post to that address, in either case in compliance with the provisions of Condition 5(a). A Put Notice, once given, shall be irrevocable. For the purposes of Conditions 1, 8, 9, 10, 14 and 15, receipts issued pursuant to this Condition 5(e) shall be treated as if they were Notes.

For the avoidance of doubt, the provisions of Condition 5(b) shall apply with respect to the presentation of Notes under this Condition 5(e)(i) and payments in respect thereof.

- (ii) If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, the Noteholder must, within the notice period specified in Condition 6(d), Condition 6(e) or the applicable Pricing Supplement (as the case may be), give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.
- (f) *Payment Day*

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "*Payment Day*" means any day which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) the relevant place of presentation;
 - (B) London;
 - (C) any Additional Financial Centre specified in the applicable Pricing Supplement; and
 - (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than the place of presentation, London and any Additional Financial Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is open.
- (g) *Interpretation of principal and interest*

Any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) in relation to Notes redeemable in instalments, the Instalment Amounts;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 6(f)); and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

6. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Pricing Supplement in the relevant Specified Currency on the Maturity Date.

(b) *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Agent and, in accordance with Condition 13, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

- (i) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 7) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes: and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Persons of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and 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 the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders.

Notes redeemed pursuant to this Condition 6(b) will be redeemed at their Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date fixed for redemption.

(c) *Redemption at the option of the Issuer (Issuer Call)*

If Issuer Call is specified in the applicable Pricing Supplement, the Issuer may, having given:

- (i) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 15 days before the giving of the notice referred to in (i), notice to the Trustee and to the Agent;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption. The aggregate nominal amount of Redeemed Notes represented by definitive Notes shall bear the same proportion to the aggregate nominal amount of all Redeemed Notes as the aggregate nominal amount of definitive Notes outstanding bears to the aggregate nominal amount of the Notes outstanding, in each case on the Selection Date, provided that such first mentioned nominal amount shall, if necessary, be rounded downwards to the nearest integral multiple of the Specified Denomination, and the aggregate nominal amount of Redeemed Notes represented by a Global Note shall be equal to the balance of the Redeemed Notes. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

(d) *Redemption at the option of the Noteholders (Investor Put) and exercise of Noteholders' rights*

If Investor Put is specified in the applicable Pricing Supplement, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than 15 nor more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Pricing Supplement, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. The Noteholder must also comply with the provisions of Condition 5(e).

(e) *Redemption at the option of the Noteholders on a Restructuring Event*

This Condition 6(e) applies only where LPN is the Issuer.

(i) (a) If, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):

(A) an independent financial adviser (as described below) shall have certified in writing to the Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or

(B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Trustee that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it 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 have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(e) shall cease to have any further effect in relation to such Restructuring Event.

(b) If, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(e)(i)(a)):

(A) within the Restructuring Period, either:

(i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or

(ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and

(B) an independent financial adviser shall have certified in writing to the Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a "**Negative Certification**"),

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

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Issuer (or of any Subsidiary of the Issuer and which is guaranteed on an unsecured and unsubordinated basis by the Issuer) having an

initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any certification by an independent financial adviser as aforesaid as to whether or not, in its opinion, any Restructuring Event is materially prejudicial to the interests of the Noteholders shall, in the absence of manifest or proven error, be conclusive and binding on the Trustee, the Issuer and the Noteholders. The Issuer may, at any time, with the approval of the Trustee (such approval not to be unreasonably withheld or delayed) appoint an independent financial adviser for the purposes of this Condition 6(e). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(e)(i)(b)(B) and (if so required by the Trustee) the Trustee is indemnified to its satisfaction against the costs of such adviser, the Trustee may appoint an independent financial adviser for such purpose following consultation with the Issuer.

- (ii) Promptly upon the Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 13 specifying the nature of the Put Event and the procedure for exercising the Put Option.
- (iii) To exercise the Put Option, the holder of a Note must comply with the provisions of Condition 5(e). The applicable notice period for the purposes of Condition 5(e) shall be the period (the "**Put Period**") of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 5(e), the Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the "**Put Date**") unless previously redeemed or purchased.
- (iv) For the purposes of these Conditions:
 - (a) "**Distribution Services Area**" means the area specified as such in the distribution licence granted to the Issuer on 1st October, 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A "**Negative Rating Event**" shall be deemed to have occurred if (1) the Issuer does not, either prior to or not later than 14 days after the date of a Negative Certification in respect of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the 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 (2) 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).
 - (c) A "**Put Event**" occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.
 - (d) "**Rating Agency**" means Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies Inc. or any of its subsidiaries and their successors ("**Standard & Poor's**") or Moody's Investors Service Limited or any of its subsidiaries and their successors ("**Moody's**") or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer from time to time with the prior written approval of the Trustee (such approval not to be unreasonably withheld or delayed).
 - (e) 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.

- (f) **“Rated Securities”** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the 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.
- (g) **“Relevant Subsidiary”** means a wholly-owned Subsidiary of the Issuer, LEG or of another Relevant Subsidiary, that has executed a guarantee in respect of the Notes or has become a primary obligor under the Notes as contemplated in sub-paragraph (1) of the definition of “Restructuring Event”.
- (h) **“Restructuring Event”** means the occurrence of any one or more of the following events:
 - (1) the Issuer and/or any Relevant Subsidiary ceases to be authorised and empowered to distribute electricity in the whole or substantially the whole (determined in accordance with sub-paragraph (k) below) of the Distribution Services Area, except in circumstances where the Issuer and/or one or more Relevant Subsidiaries and/or one or more wholly-owned Subsidiaries of the Issuer, LEG or of a Relevant Subsidiary is so authorised and empowered and, in the case of a wholly-owned Subsidiary of the Issuer, LEG or of a Relevant Subsidiary, such wholly-owned Subsidiary either executes in favour of the Trustee an unconditional and irrevocable guarantee in respect of the Notes (jointly and severally where appropriate) in such form as the Trustee may require or has become a primary obligor under the Notes (jointly and severally where appropriate) in accordance with Condition 15; or
 - (2) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which the Issuer and/or any Relevant Subsidiary is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two Authorised Persons of the Issuer and/or two directors of the Relevant Subsidiary (as the case may be) have certified in good faith to the Trustee that the modified terms and conditions are not materially less favourable to the business of the Issuer or such Relevant Subsidiary (as the case may be);
 - (3) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Trade and Industry (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 unless two Authorised Persons of the Issuer and/or two directors of the Relevant Subsidiary (as the case may be) have certified in good faith to the Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of the Issuer or such Relevant Subsidiary (as the case may be).
- (i) **“Restructuring Period”** means:
 - (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
 - (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and (cc) the date on which a Negative Certification shall have been given to the Issuer in respect of that Restructuring Event.

- (j) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, declining to assign a rating of at least investment grade as provided in this Condition 6(e) does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.
- (k) The Issuer or any Relevant Subsidiary shall be deemed to have ceased to be authorised and empowered to distribute electricity in the whole or substantially the whole of the Distribution Services Area if at any time the Distribution Revenues (as defined below) in respect of the area within the Distribution Services Area in which the Issuer and each Relevant Subsidiary (taken together) are so authorised and empowered to distribute electricity are less than 90 per cent. of the Distribution Revenues in respect of the Distribution Services Area (or such part thereof in which the Issuer and/or any Relevant Subsidiary distributed electricity during the relevant period referred to in the definition of "Distribution Revenues").

For the purposes of this subparagraph (k), "**Distribution Revenues**" means, at any time and in respect of any area, the aggregate gross revenues of the Issuer and each Relevant Subsidiary attributable to the distribution by it of electricity in that area in respect of the period for which audited financial statements of the Issuer and each Relevant Subsidiary have at such time most recently been prepared and published, all as determined in accordance with the accounting principles, standards and practices on which the preparation of the relevant audited financial statements were based and those accounting policies which were used in the preparation of such audited financial statements.

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

(f) *Early Redemption Amounts*

For the purpose of Condition 6(b) above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (i) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Pricing Supplement or, if no such amount or manner is so specified in the applicable Pricing Supplement, at its nominal amount; or
- (iii) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^Y$$

where:

"**RP**" means the Reference Price;

"**AY**" means the Accrual Yield expressed as a decimal; and

“y” is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Pricing Supplement.

(g) *Instalments*

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to paragraph (f) above.

(h) *Partly Paid Notes*

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Pricing Supplement.

(i) *Purchases*

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

(j) *Cancellation*

All Notes which are redeemed or purchased pursuant to Condition 6(e) will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased pursuant to paragraph (i) above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) and surrendered for cancellation shall be forwarded to the Agent and cannot be reissued or resold.

(k) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption or purchase of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and repayable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13.

7. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 5(f)); or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) to, or to a third party on behalf of, a holder who, being entitled to avoid being 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, fails to make such a declaration or claim; or
- (e) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in another Member State of the European Union.

As used herein:

- (i) "**Tax Jurisdiction**" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 13.

8. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

9. EVENTS OF DEFAULT AND ENFORCEMENT

(a) *Events of Default*

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (ii), (iii) and (v) to (viii) inclusive 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 Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption 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:

- (i) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or the Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6(e) fails to do so within a period of 14 days of having become so obliged; or
- (ii) if the Issuer fails to perform or observe any of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Trustee shall have certified to the Issuer 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) the 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

- (iii) if (A) 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 (B) 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 (C) 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 (D) 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 (iii) 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) and two per cent. of the Capital and Reserves, and for the purposes of this sub-paragraph (iii), "indebtedness for borrowed money" shall exclude Non-recourse Indebtedness; or
- (iv) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (v) if any order shall be made by any competent court or any resolution shall be passed for the winding up or dissolution of a Principal Subsidiary, save for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary are transferred to the Issuer or any of its other Subsidiaries (other than an Excluded Subsidiary) or (ii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (vi) if the Issuer or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save, in the case of a Principal Subsidiary, in each case for the purposes of amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all or substantially all of its assets are transferred to another member of the Group (other than an Excluded Subsidiary) or to a transferee which is, or immediately upon such transfer becomes, a Principal Subsidiary or (B) 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 (C) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or
- (vii) if the Issuer or any Principal Subsidiary shall suspend or shall threaten to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts (within the meaning of section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors under section 1 of the Insolvency Act 1986; or
- (viii) if a receiver, administrative receiver, administrator or other similar official shall be appointed in relation to the Issuer or any Principal Subsidiary or in relation to the whole or a substantial part of the undertaking or assets of any of them or a distress, execution or other process shall be levied or enforced upon or sued out against, or an encumbrancer shall take possession of, the whole or a substantial part of the assets of any of them and in any of the foregoing cases it or he shall not be paid out or discharged within 90 days (or such longer period as the Trustee may in its absolute discretion permit).

For the purposes of sub-paragraph (vii) above, section 123(1)(a) of the Insolvency Act 1986 shall have effect as if for “£750” there was substituted “£250,000” or such higher figure as the Gas and Electricity Markets Authority (or any successor) may from time to time determine by notice in writing to the Secretary of State for Trade and Industry and the Issuer.

Neither the Issuer nor any Principal Subsidiary shall be deemed to be unable to pay its debts for the purposes of sub-paragraph (vii) above if any such demand as is mentioned in section 123(1)(a) of the Insolvency Act 1986 is being contested in good faith by the Issuer or the relevant Principal Subsidiary with recourse to all appropriate measures and procedures or if any such demand is satisfied before the expiration of such period (if any) as may be stated in any notice given by the Trustee under this Condition 9(a).

(b) *Enforcement*

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in nominal amount of the Notes then outstanding and (ii) it shall have been indemnified to its satisfaction.

No Noteholder, Receiptholder 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 the failure shall be continuing.

(c) *Definitions*

For the purposes of these Conditions:

“**Principal Subsidiary**” at any time shall mean each Subsidiary of the Issuer (not being an Excluded Subsidiary or any other Subsidiary of the Issuer whose only indebtedness for borrowed money is Non-recourse Indebtedness):

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

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

“**Excluded Subsidiary**” means any Subsidiary of the Issuer (other than a Relevant Subsidiary):

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

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

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

“Non-recourse Indebtedness” means any indebtedness for borrowed money:

- (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 any specific asset or assets over or in respect of which security has been granted in respect of such indebtedness for borrowed money; 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 any such asset or assets or the income, cash flow or other proceeds deriving therefrom (or given by any shareholder or the like in the borrower over its shares or the like in the capital of the borrower) to secure such indebtedness for borrowed money, provided that (aa) the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement, and (bb) such person or persons is/are not entitled, by virtue of any right or claim arising out of or in connection with such indebtedness for borrowed money, to commence proceedings for the winding up or dissolution of the borrower or to appoint or procure the appointment of any receiver, trustee or similar person or officer in respect of the borrower or any of its assets (save for the assets the subject of such encumbrance); and/or
 - (3) recourse to such borrower generally, or directly or indirectly to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or any obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available.

10. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

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

11. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent; and

- (b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) to the extent not satisfied by (a) or (b) above, if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, the Issuer will ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

12. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13. NOTICES

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in the United Kingdom. It is expected that such publication will be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest or proven error. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

15. SUBSTITUTION

The Trustee may, without the consent of the Noteholders, Receiptholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute or substitutes under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of any Subsidiary or Subsidiaries (other than an Excluded Subsidiary) of the Issuer or any company of which the Issuer is a Subsidiary, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, and (c) certain other conditions set out in the Trust Deed being complied with.

16. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

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.

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

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series in certain circumstances where the Trustee so decides.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

19. GOVERNING LAW

The Trust Deed, the Agency Agreement, the Notes, the Receipts and the Coupons are governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the relevant Issuer for its general corporate purposes.

DESCRIPTION OF LONDON ELECTRICITY GROUP PLC

BACKGROUND AND STRUCTURE

On 1st April, 1989, London Electricity plc (as it was then known) was incorporated with limited liability in England and Wales under the Companies Act 1985, to operate an electricity distribution and supply business in an authorised supply area pursuant to a public electricity supply licence ("PES Licence") granted under the Electricity Act 1989. In 1998, London Electricity plc became an indirect wholly-owned subsidiary of Electricité de France S.A. ("EDF").

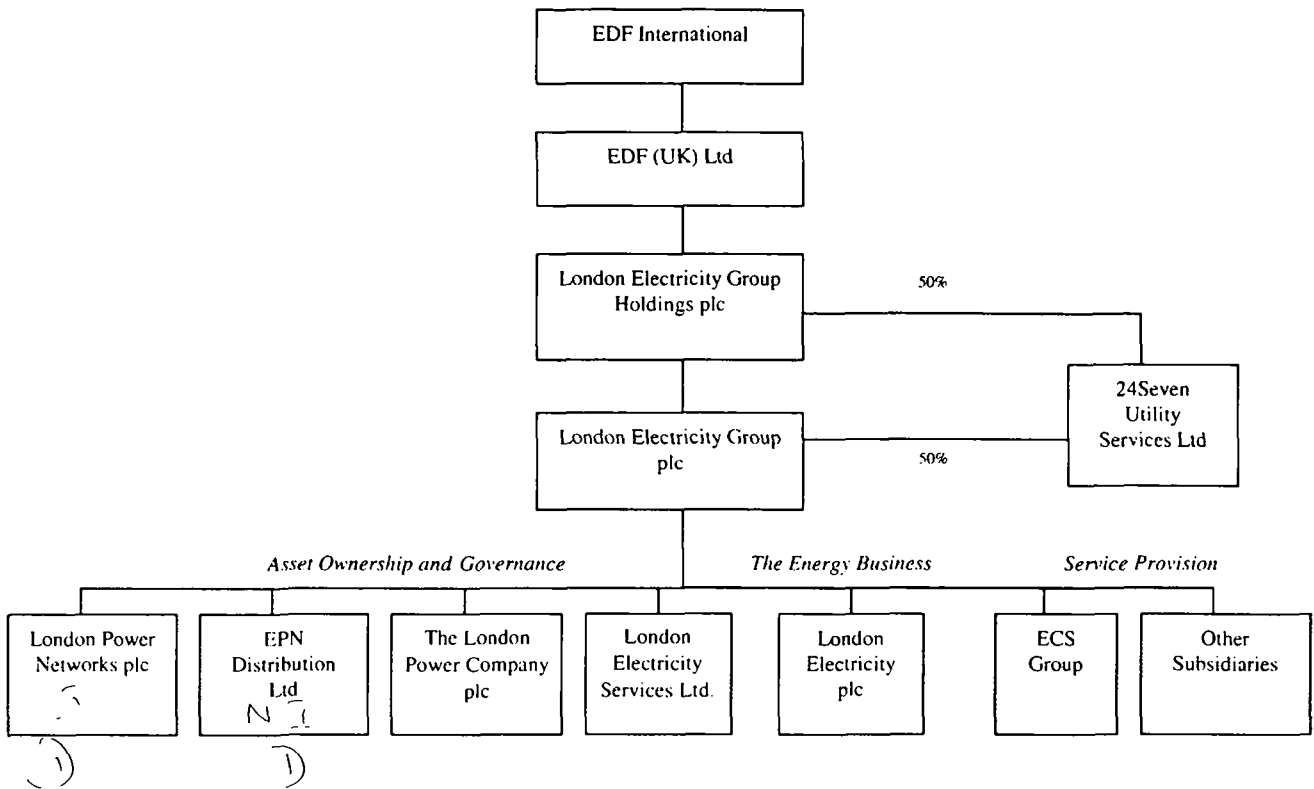
On 1st October, 2001, as part of a reorganisation of the LEG group pursuant to a transfer scheme under the Utilities Act 2000 (the "UA2000"), which required activities of electricity distribution to be separated from those of electricity supply, the holding company of London Electricity plc, London Electricity Group plc, was renamed London Electricity Group Holdings plc ("LEGH") and London Electricity plc, the holder of the PES Licence, was renamed London Electricity Group plc ("LEG"). The LEG group reorganisation brought about by the transfer scheme resulted in:

- the assets and liabilities of the distribution business of LEG being transferred to a wholly-owned subsidiary of LEG, London Power Networks plc ("LPN");
- the assets and liabilities of the supply business of LEG being transferred to a wholly-owned subsidiary of LEG, London Electricity plc ("London Electricity") (formerly known as London Energy Company Limited);
- the PES Licence held by LEG being given effect as two separate licences: one, now held by LPN, for distribution and the other, now held by London Electricity, for supply, from 1st October, 2001;
- The London Power Company plc, which owns the LEG group's generation assets, becoming a subsidiary of LEG; and
- all of LEG's other activities remaining with or being transferred to existing or newly formed subsidiaries of LEG.

Since its acquisition by EDF in 1998, LEG has developed into an intermediate holding company of a vertically integrated UK energy group consisting of companies which:

- own, manage and operate electricity generation plants and electricity distribution networks;
- supply electricity and gas to consumers; and
- provide related services.

The diagram below sets out a simplified form of the current EDF group structure as at 31st January, 2002:



THE ELECTRICITY SUPPLY CHAIN

The electricity supply chain in the United Kingdom consists of four components:

- Generation
- Transmission
- Public Distribution
- Supply

Generation involves the conversion of fuel (such as coal, gas, water or wind) into electricity by a power station. With some minor exceptions, generation may only be undertaken by licensed generators. The output from a generator is passed into the national transmission system operated by National Grid Company plc (the "Grid"). Generators earn their revenue either from the provision of generating capacity or the sale of electricity generated by them to suppliers.

Transmission involves the bulk transfer of electricity from a power station over high voltage transmission networks to distribution companies. In England and Wales, transmission is undertaken by the Grid.

Public distribution involves the distribution of electricity received from the Grid across lower voltage local networks to end consumers. With some minor exceptions, distribution may only be undertaken by licensed distributors. Distribution companies earn their revenue from "distribution use of system" ("DuoS") charges made to suppliers for access to and use of their networks. While end consumers may choose their own supplier, all electricity supplied is delivered by the licensed distributor for the area.

Supply involves the purchase of electricity and its marketing and sale to end consumers. Supply is undertaken only by licensed suppliers. Suppliers earn their revenue from the sale of electricity to end consumers. In addition to the cost of the electricity, suppliers must also make DuoS payments to the relevant distributor.

The structure of the electricity supply chain enables a person (provided they are licensed) to be a supplier of electricity without owning generation, transmission or distribution assets. The gas supply chain in the United Kingdom is similarly structured, enabling LEG, through its subsidiaries, to be not only a generator, distributor and supplier of electricity but also a supplier and shipper of gas.

THE LEG GROUP

The LEG group is a vertically integrated group participating in each part of the electricity supply chain with the exception of transmission. The LEG group structure and strategy overlaps in three areas:

- *Asset Ownership and Governance* - comprising generation, public distribution networks and private distribution networks
- *The Energy Business* - comprising supply, energy purchasing and risk management
- *Service Provision* - comprising network, customer and metering services.

The LEG group's business is firmly based in the ownership of electrical infrastructure assets which operate in both competitive (generation and supply) and regulated monopoly (public distribution) markets. Its presence at the two competitive points of the supply chain (generation and supply) enables the LEG group to exploit the relevant markets at those points and provides balance. In these competitive markets the LEG group also benefits from its capabilities in energy purchasing and risk management. The LEG group also has a significant service provision capability which both supports the existing LEG group activities and is available to facilitate expansion or to seek external growth opportunities.

In this Offering Circular, references to "LEG group" are to LEG and its consolidated subsidiaries.

ASSET OWNERSHIP AND GOVERNANCE

Generation

Nature of Business and Regulation

The generation business owns and operates power stations and participates in other generation schemes using fuels such as coal, gas and wind. The generation market comprises three segments: base load (running throughout most of the year), mid-merit (running in high demand periods), and peaking (running to supply peak demand periods). The output generated is passed into the Grid. Each segment is competitive and therefore generators strive to ensure that fuel is purchased economically, that generation in the relevant market or markets occurs efficiently within environmental constraints and, ultimately, that output is sold profitably.

Power stations typically manage their businesses by:

- maintaining long term fuel contracts matched with long term sale contracts; or
- operating as "merchant plant" by purchasing fuel and selling the output on a more short term basis; or
- establishing "tolling" arrangements in which customers contract for the capacity of the power station but provide their own fuel in order to produce electrical output which they on-sell to the market or use themselves.

Except in the case of a tolling arrangement, the risk of volatility in fuel prices and the price at which electricity can be sold lie with the generator.

While the generation business is competitive, market participants require a generating licence to operate. Environmental legislation, including requirements to limit emissions of sulphur dioxide (in the case of coal generation plants) and other pollutants, also applies.

Businesses

The generation portfolio is diversified between gas and coal plant and base load and mid-merit plant. The majority of fuel is currently contracted on a short to medium term basis. The LEG group's wholly-owned power stations are contracted on a tolling basis to LEG which is responsible for both providing fuel to the power stations and taking the output produced. The generating business is regarded as an essential part of the vertically integrated energy business of the LEG group as a whole.

The London Power Company plc

The LEG group's generation business is managed through an intermediate holding company, The London Power Company plc ("LPC"), a wholly-owned subsidiary of LEG. Originally incorporated in 1989 to hold a number of minority interests in generation activities, LPC was chosen as the intermediate holding company for generation companies subsequently acquired by the group.

The LEG group's generation business comprises:

- (i) three power stations in the United Kingdom with a total generation capacity of 4818MW, namely:
 - *Sutton Bridge Power* - located in Lincolnshire, Sutton Bridge Power is a combined cycle gas turbine power station with a design capacity of 790MW. It was commissioned in May 1999 and operates in the base load market. The LEG group acquired a 100 per cent. interest in the station in April 2000.
 - *Cottam Power* - located in Nottinghamshire, Cottam Power is a coal fired power station with a capacity of 2028MW generated by four units working in a two-shift regime. It was commissioned in 1969 and operates in the mid-merit market. The LEG group acquired a 100% interest in the station in December 2000.
 - *West Burton Power* - located in Nottinghamshire, West Burton Power is a coal-fired power station with a capacity of 2000MW. It was commissioned in 1969 and operates in the mid-merit market. The LEG group acquired a 100 per cent. interest in the station on 30th December, 2001.
- (ii) interests in other generation activities including:
 - a 13.5 per cent. shareholding in Barking power station (which has a capacity of 1000MW), located in London;
 - combined heat and power plants such as those located at Heathrow Airport, Imperial College and the Barkantine Estate; and
 - two operational onshore wind farms at Kirkheaton and High Hedley and offshore wind farm schemes in North East and Eastern England.

These businesses combined give the LEG group a total market share, as at 31st December, 2001, of approximately 6 per cent. of the generation market in the United Kingdom. The projected total annual output of the generating business of approximately 23TWh is around 70 per cent. of the units sold by the LEG group's supply business.

Each generator within the LEG group holds a relevant generation licence. Each of the LEG group's wholly-owned power stations is operating efficiently; however, in order to optimise the use of its generating assets within environmental constraints, the LEG group has commenced a programme of installing flue gas desulphurisation equipment ("FGD") in its West Burton plant. The LEG group has committed £51.8 million (£31.0 million of which has, as at the date hereof, been paid) for 2002 with a further £8.4 million committed for 2003 in respect of FGD installation at West Burton, which is due to be fully commissioned and operational by October 2003. The installation of FGD to two of the four units at Cottam power station has also been approved and detailed work on the proposal is currently underway.

Public Distribution Networks

Nature of Business and Regulation

The primary activity of the public distribution networks businesses is to receive electricity from the high voltage transmission network managed by the Grid and to distribute it over its networks to end consumers. The distribution businesses are substantially regulated monopolies which own and operate networks (the power lines, cables and transformers) within the "distribution services areas" described in the distribution licences issued under the Electricity Act 1989 as amended by the UA2000 (together, the "Acts").

Consumers in distribution services areas are connected to the network and electricity is delivered to them from that network irrespective of who is the supplier of that electricity. In most areas virtually all the electricity consumed is distributed over the public network. Distribution companies earn their revenue from DuoS charges made to suppliers for access to and use of their networks. The income of the distribution business therefore depends on changes in demand for electricity by consumers in the distribution services areas rather than on a consumer changing supplier. Demand for electricity is affected by such factors as growth in population, social trends, economic and business growth or decline, changes in the mix of energy

sources used by consumers, weather conditions, energy efficiency measures and other factors.

Electricity distribution in Great Britain is regulated under the Acts by the Office of Gas and Electricity Markets ("Ofgem").

All companies distributing electricity in Great Britain must be licensed unless covered by an exemption. Licences enable distribution to be carried on anywhere in Great Britain; however, they also grant special rights to, and impose special obligations on, the distributors in their own distribution services area. Licences may be terminated on 25 years notice given by the Secretary of State and may be revoked in certain circumstances including insolvency or failure to comply with an enforcement order made by Ofgem.

Distributors are subject to price reviews implemented every five years. The most recent price review became effective on 1st April, 2000 and required a one-off reduction in average regulated revenues in 2000/1 of 27 per cent for London Power Networks plc and 29 per cent for EPN Distribution Ltd, the group's two licensed distributors. Average revenue in the following four years must not increase faster than RPI-3% for both companies. The next price review is scheduled to be progressed in 2004 for implementation on 1st April, 2005. The price reviews subject each distributor to a revenue cap which provides economic incentives to operate in a cost-effective manner. Consequently, the key success factors on which the LEG group businesses focus include meeting or outperforming regulatory targets, cost reduction and efficiency within the context of improving customer services, standards of performance and overall asset management.

Businesses

The LEG group has a strong position in distribution. Its two licensed distributors are London Power Networks plc and EPN Distribution Ltd. Together, they have over 5.3 million customers giving the LEG group the largest customer base of any electricity distribution group in Great Britain.

London Power Networks plc

See "*Description of London Power Networks plc*", below.

EPN Distribution Ltd

EPN Distribution Ltd ("EPN") (formerly known as Eastern Electricity Limited) was incorporated with limited liability in England and Wales under the Companies Act on 1st April, 1989. Prior to 1st October, 2001 (before the transfer scheme under the UA2000 became effective) it held a PES Licence to operate an electricity distribution and supply business in an authorised supply area covering parts of North London and both rural and urban areas of Eastern England.

After the transfer scheme became effective, EPN retained its distribution business' with other non-distribution activities, including supply, being transferred by TXU Europe Group PLC ("TXU") (EPN's owner at the time) to other entities within the TXU group. EPN was acquired by LEG from TXU on 18th January, 2002.

EPN holds a distribution licence covering a distribution services area of approximately 20,300 sq kilometres in parts of North London and both rural and urban areas of Eastern England. It owns, operates and manages the LEG group's public electricity network assets in that area comprising primarily:

- 35,000 kilometres of overhead lines;
- 55,000 kilometres of underground cables;
- 34,500 pole mounted transformers; and
- 29,600 ground mounted transformers.

making it the largest public distribution network in Great Britain.

The EPN network distributes approximately 34TWh of electricity annually to over 3.3 million customers.

To enable the LEG group to achieve its key success factors for the distribution businesses, 24Seven Utility Services Ltd was established as a joint venture between London Electricity plc (now LEG) and TXU as owner of Eastern Electricity Limited (now EPN). The company was established as an initiative to control costs and manage assets with a view to reducing cost and increasing efficiency in network services by exploiting economies of scale, the adoption of best practice methods, and to capture the benefit of Eastern Electricity's leading position in the provision of cost effective network services.

Significant savings to London Power Networks plc and EPN are being realised through the consolidation of operations which will assist London Power Networks plc and EPN to meet the targets for cost reduction set by Ofgem.

24Seven places the LEG group in a strong position to bring the same economies to any new expansion of the distribution business.

Private Distribution Networks

Nature of Business and Regulation

The private distribution network business aims to exploit the specialist skills of the LEG group in the ownership and operation of networks in competitive situations which are not subject to regulation and where the majority of revenue arises from the provision of capacity rather than from the throughput of units.

Private electricity distribution networks are not normally subject to regulation in Great Britain and usually therefore no licence is required to operate such a business. The LEG group, however, seeks to offer customers high standards of supply, security and service via such networks.

Businesses

London Electricity Services Limited

The LEG group's private electricity distribution network interests are conducted through London Electricity Services Limited ("LES"), a wholly-owned subsidiary of LEG. The majority of the income derived from the private distribution business is based on the availability of capacity rather than the throughput of units.

The LEG group's private distribution network business owns and operates high voltage electrical distribution networks situated on private premises for consumers such as:

- airport operators: BAA plc (where it owns and operates nearly 200 substations and over 300 km of high voltage cable at Heathrow, Gatwick and Stansted airports);
- railways: development of the Channel Tunnel Rail Link, the City Greenwich Rail Link and the Eurostar terminals at Waterloo and Manchester; and
- commercial buildings: Canary Wharf and the City Point tower.

LES intends to grow its business organically through planned extensions of the networks already owned and through new opportunities to build new and/or acquire existing networks.

THE ENERGY BUSINESS

Supply

Nature of Business and Regulation

The primary activities of the supply business are to market and sell electricity, gas and now telecommunications to consumers and to manage its contracts with LEG for the purchase of electricity and gas and the provision of customer services to consumers.

Previously, the supply of electricity to consumers was a monopoly business. Competition was phased in progressively and all consumers of electricity, including residential customers, now have the ability to choose their licensed supplier. The business is high volume, low margin and highly competitive. Consequently, there has been significant expense incurred by some suppliers in customer acquisition and retention. Many suppliers have chosen to offer additional products such as gas and, in some cases, telecommunications services. In response to the market deregulation, the LEG group has adopted a strategy of offering electricity and gas and, recently, telecommunications to residential customers and the exploitation of new brands through joint ventures such as Virgin HomeEnergy Limited and Virgin HomePhone Limited.

The income derived from the supply business depends on the volume of customers and their changes in demand for electricity which is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by consumers and offered by suppliers, weather conditions, energy efficiency measures and other factors. The strategy of the LEG group's supply business is therefore focused not only on customer volume but, just as importantly, on the purchase of energy efficiently (which is carried out by LEG) and having a low "cost of service" (customer services are also provided by LEG).

As at December 2001, the supply businesses had approximately 6 per cent. of the energy market by number of customers. The LEG group intends to increase its customer base both through acquisition and direct sales activities. The LEG group currently has approximately 3 million customers across the UK market, from residential customers to large commercial businesses.

The supply business is supported by LEG which provides customer and billing services. The purchasing of energy for on-sale through the supply businesses is also undertaken by LEG (see “*Service Provision - Customer Services*” and “*Energy Purchasing and Risk Management*”, below) which, as part of an integrated energy group, also owns a generating business.

As the market is now considered to be competitive, the supply of electricity and gas is no longer subject to price control regulation, although both activities still require a licence.

Businesses

London Electricity and SWEB

The origins of LEG group’s retail business date back to 1948 when the government owned London Electricity Board commenced operation. Following privatisation in 1989, the group’s retail business continued operation in London through LEG (then known as London Electricity plc) under the PES Licence. London Electricity succeeded LEG as the LEG group’s supply business in London on 1st October, 2001 when the transfer scheme under the UA2000 became effective and it acquired the assets and liabilities of the supply business of LEG.

In 1999, the LEG group expanded its customer base by 1.3 million customers, mainly situated in Devon and Cornwall, with the acquisition of the retail business of South Western Electricity (known as SWEB).

Virgin HomeEnergy Limited

The LEG group holds 75 per cent. of the share capital of Virgin HomeEnergy Limited, a joint venture with Virgin Home Limited, part of the Virgin Group. The company became operational in June 2000 and was formed to sell electricity and gas to residential customers under a Virgin brand.

Virgin HomePhone Limited

The LEG group holds 75 per cent. of the share capital of Virgin HomePhone Limited, a joint venture with Virgin Home Limited, part of the Virgin Group. The company became operational in April 2002 and was formed to sell telecommunications to residential customers under a Virgin brand.

Energy Purchasing and Risk Management

Nature of Business and Regulation

The principal activities of the energy purchasing and risk management business are to secure a competitive advantage for the LEG group across the electricity supply chain. It seeks to do this by ensuring that the LEG group’s generation activities are optimised and energy is provided at a competitive price for its supply business. Price volatility provides both risk and opportunity for the LEG group; and it is the energy purchasing and risk management business which manages such risk and opportunity for the LEG group.

In March 2001, new electricity trading arrangements (“NETA”) were introduced in England and Wales, which replaced the former trading arrangement known as the Electricity Pool. NETA are intended to be more efficient and provide greater choice for market participants whilst maintaining the operation of a secure and reliable electricity system. NETA are based on bilateral trading between generators, suppliers, traders and customers. NETA is governed by the Balancing and Settlement Code (“BSC”), which has replaced the Pooling and Settlement Agreement which operated under the Pool system. The Grid is the system operator and is obliged to maintain the BSC, and licensed participants in the market are obliged to conform to it.

Businesses

LEG

The LEG group’s energy purchasing and risk management is conducted by LEG. It arranges the purchase of energy for the LEG group’s supply business and the sale of electricity from the LEG group’s generating business. It also manages the gas and coal purchases for the power stations and arranges gas shipping for power stations and the LEG group’s supply business.

As part of an integrated group participating in each part of the supply chain except transmission, LEG is better able to satisfy the requirements of the LEG group’s supply business and optimise the value of the LEG group’s generation output.

SERVICE PROVISION

Network Services

24Seven Utility Services Ltd

24Seven Utility Services Ltd ("24Seven") was established in April 2001 as a 50:50 joint venture between London Electricity plc (now LEG) and TXU as owner of Eastern Electricity Limited (now EPN). 24Seven was formed as a cost control and asset management initiative aimed at reducing cost and increasing efficiency in network services by exploiting economies of scale, the adoption of best practice methods, and to capture the benefit of Eastern Electricity's leading position in the provision of cost effective network services.

In January 2002, London Electricity Group Holdings plc acquired the 50% of the share capital of 24Seven held by TXU. 24Seven is now wholly owned by the LEG group and provides network engineering and operation services to London Power Network plc and EPN.

Significant savings to London Power Networks plc and EPN are being realised through the consolidation of operations which will assist London Power Networks plc and EPN to meet the targets for cost reduction set by the industry regulator, Ofgem.

The LEG group's strategy is for 24Seven to manage other utility networks with a view to further exploiting economies of scale. The company places the LEG group in a strong position to bring the same economies to any new expansion of its distribution business.

Customer Services

LEG currently provides the customer service, billing and credit control function for the supply business. It has two purpose built call centres in Doxford and Exeter. Through this function it is able to deal with in excess of 5 million customers.

Metering Services

LEG has two subsidiaries operating under the ECS brand which provide metering and related services mainly to the distribution and supply businesses. The scope of the activity includes meter installation, maintenance, reading, data processing and data aggregation services.

BOARD OF DIRECTORS

The Directors of London Electricity Group plc and their functions are listed below:

Executive Directors	Position	Other Significant Activities
Vincent de Rivaz	Chief Executive	Director, EDF (UK) Limited
Bernard Cottrant	Group Technology and Service Director	
Paul Cuttill	Group Corporate Services Director	
Gerald Wingrove	Group Finance Director	
Non-Executive Directors		
Bo Kallstrand	Chairman,	Director, London Electricity Group Holdings plc Director, EDF International SA.
Ian Beament		
Michel Francony		Director, EDF (UK) Limited Director, EDF Trading Ltd Director, EDF International S.A.
Philippe Roblique		Director, EDF Capital Investissement S.A. Director, SAPOR Conseil S.A. Director, SAPOR Finance S.A. Director, SkandenKraft B.V. Director, C2 S.A.

Save as disclosed above, each Director listed above has no principal activities outside the group which is significant with respect to the group.

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

CAPITALISATION AND INDEBTEDNESS OF LONDON ELECTRICITY GROUP PLC

The following table sets out the consolidated capitalisation and indebtedness of London Electricity Group plc and its subsidiaries as at 31st December, 2001:

	<i>As at 31st December, 2001</i>
	<u>£ million</u>
Shareholders' Funds	
Share capital:	
Issued: 645,506,179 ordinary shares of 58 ¹ / ₃ p	376.5
Share premium account	13.9
Capital redemption reserve	11.0
Profit and loss account	534.1
	<u>935.5</u>
 Indebtedness	
Unsecured:	
Amounts falling due within one year	554.6
Amounts falling due after more than one year	551.1
	<u>1,105.7</u>
Total Indebtedness	<u>1,105.7</u>
Total Capitalisation and Indebtedness	<u><u>2,041.2</u></u>

Notes:

- (1) The authorised share capital of London Electricity Group plc at 31st December, 2001 was £530,000,000 comprising 651,480,454 ordinary shares of 58¹/₃ p each and 300,000,002 ordinary shares of 50p each. All of the issued shares were fully paid.
- (2) Save as disclosed in (3) below, none of the indebtedness is guaranteed or secured.
- (3) On 18th January, 2002, London Electricity Group plc acquired TXU Europe Group plc's UK distribution business and its 50 per cent interest in 24seven Utility Services Ltd for £563 million (see "Description of London Electricity Group plc"). To fund the acquisition, London Electricity Group plc borrowed £143 million under a £750 million unsecured banking facility which is guaranteed by The London Power Company plc, London Electricity Services Limited and London Electricity plc and the authorised and issued share capital of London Electricity Group plc was increased by £420 million with the creation and issue of 720,041,145 ordinary shares of 58¹/₃p. The acquired distribution business had an indebtedness at acquisition of £750 million none of which is guaranteed or secured. On 23rd April, 2002, London Electricity Group plc received £38.8 million from TXU Europe Group plc to reflect adjustments to the purchase price paid by London Electricity Group plc for TXU Europe Group plc's UK distribution business.
- (4) Save as disclosed in Note 31 in the Notes to the Accounts below, as at 31st December, 2001, London Electricity Group plc had no material contingent liabilities or guarantees.
- (5) Save as disclosed above, there has been no material change in shareholders' funds, indebtedness, contingent liabilities or guarantees of London Electricity Group plc since 31st December, 2001.

DESCRIPTION OF LONDON POWER NETWORKS PLC

BACKGROUND

London Power Networks plc ("LPN") was incorporated with limited liability in England and Wales under the Companies Act 1985 on 15th February, 2000. It was recharacterised as a public limited company on 18th September, 2001 and is a wholly owned subsidiary of LEG. LPN has eight wholly-owned subsidiaries which are not at the date hereof operational in any material respect. LPN commenced trading on 1st October, 2001 when the transfer scheme under the UA2000 became effective and it acquired the assets and liabilities of the distribution business of LEG. LPN derives nearly all its income from licensed regulated monopoly activities.

BUSINESS

LPN owns, operates and manages the LEG group's licensed electricity network assets in most of the Greater London Area, comprising primarily:

- 30,000 kilometres of underground cables; and
- 14,000 substations and transformer chambers.

Almost the entire network is underground, making it more stable and reliable compared with primarily overhead networks.

LPN distributes approximately 25TWh of electricity annually to more than 2 million domestic and commercial customers including financial institutions, offices, shops and government departments in the Greater London area. Approximately 60 per cent. of these units are delivered to commercial customers and 30 per cent. to domestic customers.

Because of the regulatory structure of electricity distribution in the United Kingdom, where a distribution licence provides a virtual monopoly over a certain geographical area, in this case most of the Greater London area, almost all electricity supplied (irrespective of the supplier) to consumers in the Greater London area is transported through LPN's network, thereby providing LPN with a stable distribution volume unaffected by consumer choice of electricity supplier.

However, the income derived from the distribution business depends in part upon changes in the demand for electricity by consumers in the Greater London area. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by consumers, weather conditions, energy efficiency measures and other factors.

The management and operation of network assets owned by LPN are carried out by 24Seven Utility Services Ltd. To enable the LEG group to achieve its key success factors for the distribution businesses, 24Seven Utility Services Ltd was established as a joint venture between London Electricity plc (now LEG) and TXU as owner of Eastern Electricity Limited (now EPN). The company was established as an initiative to control costs and manage assets with a view to reducing cost and increasing efficiency in network services by exploiting economies of scale, the adoption of best practice methods, and to capture the benefit of Eastern Electricity's leading position in the provision of cost effective network services.

Significant savings to LPN and EPN are being realised through the consolidation of operations which will assist LPN and EPN to meet the targets for cost reduction set by Ofgem.

REGULATION AND LICENCE

See "*Description of London Electricity Group plc - Asset Ownership and Governance - Public Distribution Networks - Nature of Business and Regulation*" for a description of the regulatory regime under which electricity distribution in the United Kingdom (and LPN's business) is conducted.

LPN holds a distribution licence with a distribution services area of 665 sq kilometres. The area is almost entirely urban and includes most of the Greater London area which is the most densely populated region in the United Kingdom.

BOARD OF DIRECTORS

The Directors of London Power Networks plc and their functions are listed below:

Executive Directors	Position	Other Significant Activities
Vincent de Rivaz	Director	Chief Executive, London Electricity Group plc Director, EDF (UK Limited)
Gerald Wingrove	Director	Group Finance Director, London Electricity Group plc
Kevin Morton	Director	
Paul Cuttill	Director	Group Corporate Services Director, London Electricity Group plc

Save as disclosed above, each Director listed above has no principal activities outside the group which is significant with respect to the group.

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

CAPITALISATION AND INDEBTEDNESS OF LONDON POWER NETWORKS PLC

The following table sets out the capitalisation and indebtedness of London Power Networks plc as at 31st December, 2001:

	As at 31st December, 2001
	£ million
Shareholders' Funds	
Share capital:	
Issued: 10,000,000 ordinary shares of £1 each	10.0
Profit and loss account	442.7
	452.7
 Indebtedness	
Unsecured:	
Amounts falling due within one year	0.4
Amounts falling due after more than one year	199.9
	200.3
Total Indebtedness	200.3
Total Capitalisation and Indebtedness	653.0

Notes:

- (1) The authorised share capital of London Power Networks plc at 31st December, 2001 was £10,000,000 comprising 10,000,000 ordinary shares of £1 each.
- (2) None of the indebtedness is guaranteed or secured.
- (3) As at 31st December, 2001, London Power Networks plc had no material contingent liabilities or guarantees.
- (4) Save as disclosed above, there has been no material change in shareholders' funds, indebtedness, contingent liabilities or guarantees of London Power Networks plc since 31st December, 2001.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF LONDON
ELECTRICITY GROUP PLC FOR THE TWO YEARS ENDED 31ST DECEMBER, 2001**

The following financial statements have been extracted without material adjustment from the audited consolidated financial statements of London Electricity Group plc for the year ended 31st December, 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December 2001

	<i>Notes</i>	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
		<i>£m</i>	<i>£m</i>
Turnover			
Turnover: group and share of joint ventures turnover		1,975.2	2,004.8
Less: share of joint venture turnover		(32.5)	(27.7)
Continuing operations			
ongoing		1,914.9	1,970.4
acquisitions		27.8	-
		1,942.7	1,970.4
Discontinued operations		-	6.7
Group turnover	3	1,942.7	1,977.1
Cost of sales		(1,270.2)	(1,387.3)
Gross profit		672.5	589.8
Distribution expenses		(152.6)	(120.2)
Administrative expenses		(342.3)	(280.4)
Total operating expenses		(494.9)	(400.6)
Continuing operations		190.6	189.2
Acquisitions		(13.0)	-
Operating profit	3,4	177.6	189.2
Share of operating profit of joint ventures		10.0	8.0
Share of operating (loss) of associates		(6.0)	(1.2)
Total operating profit: group and share of joint ventures and associates		181.6	196.0
Profit on the sale of fixed assets		22.2	2.0
Profit on ordinary activities before interest		203.8	198.0
Income from investments		1.1	1.1
Net interest payable	7	(93.5)	(73.1)
Profit on ordinary activities before taxation		111.4	126.0
Taxation on profit on ordinary activities	8	(12.7)	(11.0)
Profit on ordinary activities after taxation		98.7	115.0
Minority Interest	9	3.4	-
Profit for the financial year attributable to members of parent company		102.1	115.0
Dividends	10	(60.0)	(86.0)
Retained profit for the financial year		42.1	29.0

There are no recognised gains and losses other than the profit of £42.1 million for the year ended 31st December, 2001 (2000: profit of £29.0 million).

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

For the year ended 31st December, 2001

	<i>Notes</i>	<i>12 months to December 2001</i>	<i>12 months to December 2000</i>
		<i>£m</i>	<i>£m</i>
Profit on ordinary activities after taxation		98.7	115.0
Minority Interest	9	3.4	-
Dividends	10	(60.0)	(86.0)
		<hr/>	<hr/>
Net increase in equity shareholders' funds		42.1	29.0
Opening equity shareholders' funds		663.4	634.4
Additional share capital		230.0	-
		<hr/>	<hr/>
Closing equity shareholders' funds		935.5	663.4
		<hr/> <hr/>	<hr/> <hr/>

BALANCE SHEETS

as at 31st December, 2001

	Note	Group		Company	
		31 Dec 01	31 Dec 00	31 Dec 01	31 Dec 00
		£m	£m	£m	£m
Fixed assets					
Intangible assets	11	436.0	439.6	-	257.1
Tangible assets	12	2,293.7	1,799.0	83.8	1,005.0
Investments	13				
Subsidiaries		-	-	1,129.1	91.8
Investments in joint venture[:]					
Share of gross assets		14.8	4.4	-	-
Share of gross liabilities		(4.4)	-	-	-
Net investment[s]		10.4	4.4	-	-
Associates		-	-	8.5	8.9
Other investments		7.4	7.4	6.3	6.1
		2,747.5	2,250.4	1,227.7	1,368.9
Current assets					
Stocks.. .. .	18	55.0	27.3	4.3	6.1
Debtors - amounts falling due:					
After more than one year	19	42.4	39.5	42.4	39.4
Within one year.. .. .		434.4	356.5	516.7	348.1
Less: securitisation of trade debtors		(100.0)	(92.5)	--	(92.5)
Net debtors falling due within one year	19	334.4	264.0	516.7	255.6
Investments	20	19.9	19.2	10.4	11.0
Cash at bank and in hand.. .. .		25.5	65.6	-	1.6
		477.2	415.6	573.8	313.7
Creditors - amounts falling due within one year					
Borrowings	21	(554.6)	(424.7)	(626.3)	(242.7)
Other creditors	22	(709.1)	(543.4)	(569.3)	(466.2)
Net current liabilities		(786.5)	(552.5)	(621.8)	(395.2)
Total assets less current liabilities		1,961.0	1,697.9	605.9	973.7
Creditors:					
amounts falling due after more than one year					
Borrowings	21	(551.1)	(524.7)	(166.4)	(199.0)
Other creditors	22	(371.8)	(384.1)	-	(2.2)
		(922.9)	(908.8)	(166.4)	(201.2)
Net (liabilities)/assets of associates	13	(2.2)	1.6	-	-
Provisions for liabilities and charges	24	(103.4)	(127.3)	(5.7)	(121.6)
Minority interest		3.0	-	-	-
Net assets		935.5	663.4	433.8	650.9
Capital and reserves					
Called up share capital	27	376.5	146.5	376.5	146.5
Share premium account	28	13.9	13.9	13.9	13.9
Capital redemption reserve	28	11.0	11.0	11.0	11.0
Profit and loss account	28	534.1	492.0	32.4	479.5
Equity shareholders' funds		935.5	663.4	433.8	650.9

The accounts were approved by the Board of Directors on behalf by:

2002 and were signed on its

Gerald Wingrove

Group Finance Director

STATEMENT OF ACCOUNTING POLICIES

For the year ended 31st December, 2001

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. Two new Financial Reporting Standards: No. 17 'Retirement Benefits' (FRS 17) and No.18 'Accounting Policies' (FRS 18), are effective for the Group's 2001 year end reporting. The accounts contain the transitional disclosures required by FRS 17. The adoption of FRS 18 has had no effect on the results for the year nor required any restatement of prior year comparatives. A summary of the more important Group accounting policies is set out below. Policies have been consistently applied except where specifically stated.

Basis of accounting

These accounts have been prepared under the historical cost accounting convention.

Basis of consolidation

The Group accounts incorporate the accounts of the company and all subsidiary undertakings after eliminating intercompany transactions for the financial year. No profit and loss account is presented for London Electricity Group plc in accordance with the exemptions allowed by Section 230 of the Companies Act 1985.

Acquisitions of subsidiary undertakings and other businesses

The results of subsidiary undertakings and other businesses acquired during the period are included in the Group profit and loss account from the date that control passes. In accordance with FRS 6 and 7, on acquisition of a business, including an interest in an associated undertaking, fair values are attributed to the Group's share of the identifiable assets and liabilities existing at the date of acquisition and reflecting the conditions at that date.

Merger accounting

On 1st October, 2001, London Power Company plc was transferred into the London Electricity Group. The consideration paid was £11.4 million.

The restructuring has been accounted for in accordance with the principles of merger accounting, although it does not satisfy all the conditions. Schedule 4A to the Companies Act 1985 and FRS 6 'Acquisitions and Mergers' requires acquisition accounting to be adopted where all the conditions are not satisfied. However, in the opinion of the Directors, the restructuring is a group reconstruction rather than an acquisition, since the ultimate shareholder of the London Power Company plc and its subsidiaries remains unchanged and there is no minority involved.

London Electricity Group Holdings plc has an unaltered continuing interest in the business, both before and after the restructuring. Consequently, the Directors consider that to record the restructuring as an acquisition by the Company of the London Power Company plc subsidiaries, to attribute fair values to the assets and liabilities of its subsidiaries and to reflect only the post-restructuring results of its subsidiaries within these accounts would fail to give a true and fair view of the Group's results and financial position.

Accordingly, having regard to the overriding requirement under section 227(6) of the Companies Act 1985 for the accounts to give a true and fair view of the Group's results and financial position, the directors have adopted merger accounting principles in drawing up these accounts. The Directors consider that it is not practicable to quantify the effect of this departure from the Companies Act 1985 requirements.

The Transfer Scheme and Business Restructuring

The Utilities Act 2000 implemented Government proposals to make electricity supply and distribution separate licensable activities. The Act made provision for the Secretary of State to approve statutory transfer schemes under which existing public electricity suppliers such as London Electricity Group plc could divide their assets and liabilities between supply and distribution entities that would hold the relevant licences.

The transfer schemes were implemented on 1st October, 2001 and on that date London Electricity Group plc transferred at net book value all relevant assets and liabilities to London Power Networks (in respect of the distribution business) and London Electricity (in respect of the supply business). This included the following transfers of share capital and reserves and long-term debt:

£10 million of share capital was issued in London Power Networks and £425 million of accumulated realised profits were transferred in accordance with paragraph 9(4) of Schedule 7 of the Utilities Act 2000. Eurobonds of £200 million due 2003 & 2005 formerly issued in the name of London Electricity Group plc

were transferred to form part of London Power Network's debt and the balance of debt will initially be funded by intra-group debt to be refinanced by London Power Networks in due course.

£10 million of share capital was issued in London Electricity plc and £66.2 million accumulated realised profits were transferred in accordance with paragraph 9(4) of schedule 7 of the Utilities Act 2000. There was no long-term debt.

Goodwill

Goodwill which arose on the acquisition of the assets and liabilities of Sutton Bridge power station is being amortised over 40 years. The directors consider that businesses within the UK generation industry commonly have useful lives in excess of the 20 years presumed by FRS 10. The directors expect the business at Sutton Bridge to continue for 40 years. This period of amortisation has been chosen as it is management's best estimate of the useful life of goodwill. Other goodwill is amortised over 20 years. Sutton Bridge goodwill is reviewed every year for impairment and other goodwill is reviewed if events or changes in circumstances indicate that the carrying value may not be recoverable.

Joint Venture

The Group profit and loss account includes the Group's share of turnover, operating profit, interest and taxation on joint ventures. Investment in joint ventures is shown in the Group balance sheet using the gross equity method. The gross equity method records the Group's share of gross assets and liabilities in its joint ventures. These are taken from the latest management accounts of the undertakings concerned.

Associated undertakings

The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets and liabilities is included in the consolidated balance sheet. These amounts are taken from the latest management accounts of the undertakings concerned.

Turnover

Turnover represents the value of electricity and gas sales during the year, including an estimate of the sales value of units and therms supplied to consumers between the date of the last meter reading and the year end, distribution charges to other electricity suppliers within London Electricity Group's areas, rents and the invoice value of other goods sold and services provided, exclusive of Value Added Tax.

Leasing

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rental costs under operating leases are charged to the profit and loss account in the period on a straight line basis over the lease term.

Pensions

The cost of providing pensions in respect of defined benefit pension schemes is charged to the profit and loss account so as to spread the cost of pensions over employees' working lives. Pension surpluses and deficits arising are allocated over the estimated average remaining service lives of current employees.

Differences between the amounts charged to the profit and loss account and payments made to the schemes are treated as assets or liabilities in the balance sheet.

The pension cost is assessed in accordance with the advice of qualified actuaries.

Tangible fixed assets

Tangible fixed assets are stated at cost less amounts provided to write off assets over their useful economic life. Cost includes staff costs where employees of the Group participate directly in the construction of assets.

Fixed assets are depreciated from the date of commissioning and are written off over their expected useful lives. All depreciation is charged using the straight line method. No allowance is made for their residual values.

The lives of each major class of depreciable assets are as follows:

	<u>YEARS</u>
Generation assets	10 - 30
Network assets	10 - 50
Freehold land	Not depreciated
Other buildings	-freehold Up to 40
	-leasehold Lower of lease period or 40
Vehicles and mobile plant	5 - 10
Fixtures & equipment including computer hardware and software	3 - 8

Major systems development software costs are capitalised during the development phase and depreciated from the date of commissioning over a maximum period of 8 years.

Consumers' contributions towards distribution network assets, which include capital grants, are credited to the profit & loss account over the life of the distribution network assets to which they relate. The unamortised amount of such contributions is shown as a deduction from fixed assets. This is a departure from the Companies Act 1985 requirements which require fixed assets to be included at their purchase price or production cost and hence the contribution would be presented as deferred income. However, contributions relate directly to the cost of fixed assets used in the distribution network and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view. The value of the contributions is shown in Note 12.

Fixed asset investments

Fixed asset investments are stated in the Group balance sheet at cost less any provision for permanent diminution in value.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Stocks

Stocks are stated at the lower of cost and net realisable value. The valuation of work in progress is based on the cost of labour and materials. The cost elements of progress invoices are deducted in arriving at the amounts stated.

Profit is taken on contracts whilst the contract is in progress, having regard to the proportion of the total contract which has been completed at the balance sheet date. Provision is made for all foreseeable future losses.

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. Provision is made for deferred taxation using the liability method only where it is anticipated that the item will crystallise within the foreseeable future.

Research and Development

Expenditure in research is written off to the profit and loss in the period in which it is incurred.

Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction, all differences being taken to the profit and loss account.

Derivatives and other financial instruments

The Group holds or issues financial instruments for three main purposes:

- to finance its operations
- to manage the interest rate and currency risks arising from its sources of finance
- for trading purposes.

The Group finances its operations by a mixture of retained profits, bank borrowings, long-term loans and commercial paper. The Group borrowings are both Sterling and Dollar denominated at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest rate basis.

The majority of the Group's sales of electricity and gas are at fixed prices. The Group utilises fixed price contracts such as Contracts for differences (CFDs) and forward purchase contracts to hedge the risks arising from this exposure.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and commodity price risk. The company's policy for managing these risks is summarised below and is defined in statements authorised by the Board of Directors and reviewed on an annual basis. Authority for managing risk consistent with this corporate policy may be delegated by the Board to, amongst others, treasury and/or energy purchasing departments.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits is managed by using fixed rate debt instruments and derivative financial instruments. The Group's policy is to use derivatives to reduce exposure to short term interest rates and not for speculative purposes.

Amounts payable or receivable in respect of these swaps are recognised as adjustments to interest expense over the period of the contract. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If the interest rate swaps were to be sold or terminated, any gain or loss would be deferred and amortised over the remaining life of the debt instrument being hedged by the interest rate swaps. If the debt instrument being hedged by the interest rate swaps were to be extinguished, any gain or loss attributable to the swaps would be recognised in the period of the transaction.

Foreign currency risk

The Group's present exposure to foreign currency risk is limited to the hedging of the currency exposure on the service of interest and capital on US dollar denominated debt, and the purchase of energy sources for generation activity. The Group policy is to hedge/fix new currency exposures as they arise. The currency swap agreement fixes the Sterling equivalent which will be required to service the debt.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed, or probable, future transaction, are deferred until the transaction occurs.

Commodity price risk

The price of electricity and gas purchased to cover the retail business and the income for the generation business can be volatile. As a result, the retail business is exposed to risks arising from the differences between the fixed prices at which it sells electricity and gas and the fluctuating prices at which it purchases electricity and gas. To mitigate exposure to volatility, the business utilised in the year CFDs and energy trading swaps, forward contracts and options to fix the price of its electricity and gas purchases. Similarly, the generation business is exposed to risks arising from differences between relatively fixed costs and fluctuating income. These risks can also be mitigated by the use of CFDs and forward purchase and sales contracts.

Prior to the introduction of NETA in March 2001, the company entered into CFDs primarily to hedge its supply business against the price risk of electricity purchases from the Pool. Gains/(losses) on CFDs are recognised as a decrease/(increase) to cost of sales based upon the difference between fixed prices in the CFD compared to variable prices paid to the Pool for the period. Gains/(losses) based upon the difference between fixed prices in CFDs compared to variable prices paid to the Pool for future electricity purchases are not recognised until the period of such settlements.

With the introduction of NETA, these contracts were converted into physical contracts for the delivery of electricity. From March 2001, the Group managed price volatility by entering into contracts and hedging options on the forward market for electricity, gas and coal. Risk of loss is monitored through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings.

Gains and losses on these contracts and option premia paid are deferred and recognised in the income statement when the hedged transaction occurs.

Cashflow Statement

In accordance with FRS1 (revised) the Group has not prepared a statement of cashflows for the current year as it is a wholly owned subsidiary of a company whose accounts are publicly available.

NOTES TO THE ACCOUNTS

For the year ended 31st December, 2001

2. Exceptional items

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
Operating exceptionals		
Severance costs in relation to organisational restructuring (included within distribution costs)	-	17.8
Total exceptionals	-	17.8

3. Analysis of turnover, operating profit and net assets

	<i>Turnover</i>		<i>Operating profit</i>		<i>Net assets</i>	
	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Class of business						
Distribution	260.8	302.4	117.8	123.7	427.5	350.0
Retail and energy trading						
Continuing	2,726.2	1,763.7	(3.9)	22.6	45.9	67.0
Acquisition	27.8	-	(13.0)	-	(7.3)	-
Total retail and energy trading	2,754.0	1,763.7	(16.9)	22.6	38.6	67.0
Private electrical distribution systems	25.3	23.8	11.8	15.6	24.5	20.5
Generation						
Continuing	278.4	-	50.0	-	217.5	-
Acquisition	-	164.6	-	27.1	(2.7)	72.1
Total generation	278.4	164.6	50.0	27.1	214.8	72.1
Service providers and others						
Continuing	314.6	103.7	23.3	3.8	230.1	153.8
Discontinued	-	6.7	-	(1.8)	-	-
Total service providers and others	314.6	110.4	23.3	2.0	230.1	153.8
	3,633.1	2,364.9	186.0	191.0	935.5	663.4
Less: Inter business transactions	(1,690.4)	(387.8)	(8.4)	(1.8)	-	-
Continuing operations ..	1,942.7	1,977.1	177.6	189.2	935.5	663.4

	<i>Operating profit</i>	
	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	£m	£m
Share of operating profits of joint ventures and associates	4.0	6.8
Profit on the sale of fixed assets	22.2	2.0
Net interest and income from investments	(92.4)	(72.0)
Profit on ordinary activities before taxation	111.4	126.0

EXPLANATION OF TERMINOLOGY USED IN THE PROFIT AND LOSS ACCOUNT

Distribution business

Transfer of electricity from the points where it is received in bulk across the distribution systems and its delivery to consumers.

Retail and energy trading

Retail includes the purchase, marketing and supply of electricity and gas to end customers.

Private electrical distribution systems

Operation, maintenance and expansion of private electrical distribution systems.

Generation

The generation of electricity.

Service providers and others

This primarily includes the provision of services to the Group, e.g. metering, transport, property and insurance.

Geographical analysis

Turnover arises entirely in the United Kingdom.

4. Operating profit

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
Operating profit is stated after charging:		
Staff costs (Note 5)	93.3	73.1
Depreciation (Note 12)	101.5	70.8
Operating lease rentals:		
Land and buildings	8.5	6.6
Plant and machinery	0.2	-
Vehicles	-	-
Research & development costs	0.3	0.6
Amounts paid to Group auditors:		
Remuneration as Group auditors	0.3	0.3
Fees for other services in the United Kingdom	0.7	0.4
Amortisation of goodwill	19.0	14.4
and after crediting:		
Rental income	0.3	4.1

5. Staff costs

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
Wages and salaries	91.6	75.5
Social security costs	7.6	7.6
Other pension costs (Note 29)	(4.7)	(0.9)
	94.5	82.2
Less: capitalised expenditure	(1.2)	(9.1)
Charged to the profit and loss account	93.3	73.1

The average number of employees (including executive directors) during the period by class of business:

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>Number</i>	<i>Number</i>
Distribution	58	283
Retail and energy trading	1,843	1,600
Generation	196	-
Private electrical distribution systems	85	80
Other	1,350	1,670
	3,532	3,633

A change in the method of calculation has been used in 2001 and 2000 figures have been restated to reflect this change in method.

6. Directors' emoluments

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<u>£'000</u>	<u>£'000</u>
Aggregate emoluments	1,493.2	1,691.0
Company contributions to money purchase pension schemes	16.3	32.0
	<u>1,509.5</u>	<u>1,723.0</u>

Emoluments payable to the highest paid director are as follows:

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<u>£'000</u>	<u>£'000</u>
Aggregate emoluments	394.8	535.9
	<u>394.8</u>	<u>535.9</u>

Retirement benefits are accruing to one (2000: two) director under money purchase schemes and to no (2000: nil) directors under defined benefit schemes.

7. Net interest payable

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
Interest receivable and similar income:		
Group	4.1	5.4
Joint venture	0.6	0.5
Associates	0.1	-
	<u>4.8</u>	<u>5.9</u>
Interest payable and similar charges:		
Bank loans and overdraft		
Group	(39.1)	(28.2)
Joint venture	(4.6)	(5.1)
Associates	-	(0.2)
Finance Lease	(22.7)	-
Unwinding of financial discounts on provisions	2.1	-
Unwinding of discount on provision	(8.5)	(8.4)
Other loans (group)	-	(10.3)
Bonds	(25.5)	(26.8)
	<u>(98.3)</u>	<u>(79.0)</u>
	<u>(93.5)</u>	<u>(73.1)</u>

8. Taxation on profit on ordinary activities

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
United Kingdom Corporation taxation at 30% (2000: 30%)		
Current taxation on ordinary activities	23.0	31.1
Group relief	(22.6)	(18.2)
Deferred taxation on exceptional costs	1.2	(1.4)
Deferred taxation on other items	11.1	(0.5)
	<u>12.7</u>	<u>11.0</u>

9. Minority Interest

Minority interest is in relation to Virgin Energy Ltd. London Electricity Group plc increased its percentage shareholding from 25% to 75% on 29th June, 2001. For the first six months of 2001, Virgin Energy Ltd was a 25% associate and London Electricity Group plc incorporated their share of Virgin's results. The results for the last six months of the financial year for Virgin Energy Ltd have been fully consolidated into London Electricity Group plc. A minority interest adjustment has been made to reflect the share of the results applicable to Virgin's 25% holding.

10. Dividends

	<i>12 months to December, 2001</i>	<i>12 months to December, 2000</i>
	<i>£m</i>	<i>£m</i>
Interim dividend of 7.96p per 58 1/3p ordinary share	–	20.0
Final dividend of 9.3p per 58 1/3p ordinary share (2000: 26.27p per 58 1/3p ordinary share)	60.0	66.0
	60.0	86.0

Of the final dividend £40 million has been paid and £20 million proposed.

11. Intangible assets

	<i>Group</i>	<i>Company</i>
	<i>£m</i>	<i>£m</i>
Goodwill		
Cost		
At 1st January, 2001	460.4	274.1
Additions.. .. .	14.8	–
Transfer to subsidiary undertaking (Transfer scheme)	–	(274.1)
At 31st December, 2001	475.2	–
Amortisation		
At 1st January, 2001	20.8	17.0
Charge for the year	18.4	–
Transfer to subsidiary undertaking (Transfer scheme)	–	(17.0)
At 31st December, 2001	39.2	–
Net book amounts		
At 31st December, 2001	436.0	–
At 31st December, 2000	439.6	257.1

The £14.8 million goodwill was generated via the purchase of West Burton power station, £5.5 million, and the increased stake in Virgin Energy, £9.3 million. The goodwill in both cases will be amortised over 20 years on a straight line basis.

Purchase of business

The group acquired West Burton power station and group of companies for £358.0 million (plus acquisition costs of £2.8 million) on 28th December, 2001. The full consideration was paid in cash. The analysis of net assets acquired to the group is as follows:

	<i>Book values as at date of acquisition</i>	<i>Fair value at acquisition date</i>
	<i>£m</i>	<i>£m</i>
Tangible assets	421.4	421.4
Stock	18.9	18.9
Cash	0.4	0.4
Total creditors	(85.4)	(85.4)
Net assets	355.3	355.3
Goodwill		5.5
Consideration including acquisition costs		360.8

No prior year results are available for West Burton. The company was incorporated two months before the purchase by London Power Company plc. The fair value of assets have been based on book values, and may be restated in 2002 following the results of a fair value exercise currently underway.

On 29th June, 2001 London Electricity Enterprises Ltd (LEE), a subsidiary of London Electricity Group plc increased its share holding in Virgin Energy from 25% to 75%. The full consideration was paid in cash. The analysis of net assets acquired to the group is as follows:

	<i>Book values as at date of acquisition</i>	<i>Fair value at acquisition date</i>
	<i>£m</i>	<i>£m</i>
Tangible assets	2.1	2.1
Cash	2.2	2.2
Debtors	2.5	2.5
Creditors	(5.4)	(5.4)
Net assets	1.4	1.4
Minority interest		(0.3)
Goodwill		9.3
Consideration		10.4

Each of these combinations has been accounted for using the acquisition method of accounting.

12. Tangible assets

Group	Generation assets	Network assets	Other land and buildings	Fixtures and equipment	Vehicles & mobile plant	Deduct: consumers' contributions	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
At 1st January, 2001	701.9	1,742.9	89.1	219.0	16.5	(288.1)	2,481.3
Additions	428.3	154.8	0.8	51.2	0.8	(36.5)	599.4
Disposals	-	-	(3.9)	-	(1.7)	-	(5.6)
Depreciation							
At 31st December, 2001	1,130.2	1,897.7	86.0	270.2	15.6	(324.6)	3,075.1
At 1st January, 2001	7.8	588.1	27.5	129.2	9.7	(80.0)	682.3
Charge for the year	31.2	40.3	1.9	31.9	2.1	(5.9)	101.5
Disposals	-	-	(0.7)	-	(1.7)	-	(2.4)
At 31st December, 2001	39.0	628.4	28.7	161.1	10.1	(85.9)	781.4
Net book amounts							
At 31st December, 2001	1,091.2	1,269.3	57.3	109.1	5.5	(238.7)	2,293.7
At 31st December, 2000	694.1	1,154.8	61.6	89.8	6.8	(208.1)	1,799.0
Company							
Generation assets	Network assets	Other land and buildings	Fixtures and equipment	Vehicles & mobile plant	Deduct: consumers' contributions	Total	
£m	£m	£m	£m	£m	£m	£m	
Cost							
At 1st January, 2001	-	1,642.4	85.8	215.9	-	(288.1)	1,656.0
Transfers to other group companies	-	(1,642.4)	(70.3)	(70.8)	-	288.1	(1,495.4)
Additions	-	-	-	38.3	-	-	38.3
Disposals	-	-	(0.7)	-	-	-	(0.7)
At 31st December, 2001	-	-	14.8	183.4	-	-	198.2
Depreciation							
At 1st January, 2001	-	576.6	27.4	127.0	-	(80.0)	651.0
Transfers to other group companies	-	(576.6)	(22.5)	(32.0)	-	80.0	(551.1)
Charge for the year	-	-	0.4	14.2	-	-	14.6
Disposals	-	-	(0.1)	-	-	-	(0.1)
At 31st December, 2001	-	-	5.2	109.2	-	-	114.4
Net book amounts							
At 31st December, 2001	-	-	9.6	74.2	-	-	83.8
At 31st December, 2000	-	1,065.8	58.4	88.9	-	(208.1)	1,005.0

As discussed in Note 1 as part of the transfer scheme on 1st October, 2001 London Electricity Group Plc transferred its distribution business to LPN and its supply business to London Electricity plc.

Net book amount of other land and buildings comprises:

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Freehold	32.9	35.4	1.1	32.2
Long leasehold (over 50 years)	9.4	10.1	8.5	10.1
Short leasehold (50 years or less)	15.0	16.1	-	16.1
	57.3	61.6	9.6	58.4

Net book amount of tangible fixed assets include the following:

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Assets in the course of construction	48.4	36.3	18.8	10.2
Land not depreciated	17.5	16.2	-	16.2
Generation assets held under finance lease	375.8	395.5	-	-

13. Fixed asset investments

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Subsidiaries (Note 14)	-		1,129.1	91.8
Joint Ventures (Note 15)	10.4	4.4	-	-
Associates (Note 16)	(2.2)	1.6	8.5	8.9
Other investments (Note 17)	7.4	7.4	6.3	6.1
	15.6	13.4	1,143.9	106.8

All investments are unlisted.

14. Subsidiaries - Company

	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January, 2001	25.9	65.9	91.8
Additions	25.0	1,025.5	1,050.5
Repayments	-	(13.2)	(13.2)
At 31st December, 2001	50.9	1,078.2	1,129.1

The principal operating subsidiaries at 31st December, 2001 included in the consolidated accounts are listed below:

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
The London Power Company plc	Ordinary £1	100%	Investment in electricity generation
London Power Insurance Ltd	Ordinary £1	100%	Insurance
London Electricity Services Ltd	Ordinary £1	100%	Electricity distribution projects
London Electricity Enterprises Ltd	Ordinary £1	100%	Investments in commercial projects
London Electricity plc	Ordinary £1	100%	Electricity retailing
London Power Networks plc	Ordinary £1	100%	Contract management for distribution network
London Electricity Transport Services Ltd	Ordinary £1	100%	Provision and supply of transport services
Knight Debt Recovery Services Ltd	Ordinary £1	100%	Debt collection and tracing
Sutton Bridge Power Ltd***	Ordinary £1	100%	Provision and supply of electricity generation
Cottam Power Ltd***	Ordinary £1	100%	Provision and supply of electricity generation
West Burton Power Ltd***	Ordinary £1	100%	Provision and supply of electricity generation
ECS Metering Services Ltd	Ordinary £1	100%	Meter operations and related services
ECS Data Services Ltd*	Ordinary £1	100%	Meter reading and related services
Virgin Energy Ltd**	A Class Shares Ordinary £0.10 B Class Shares Ordinary £0.01	75.0% 100%	Customer acquisition services

Notes:

* Wholly owned by ECS Metering Services Ltd

** A subsidiary of London Electricity Enterprises Ltd

*** Wholly owned by London Power Company plc

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
London Electricity Projects Ltd	Ordinary £1	100%	Project management
London Electricity Share Scheme Trustees Ltd	Ordinary £1	100% employee share and benefits funds	Trustees of employee share and benefits funds

All the above subsidiaries operate within the United Kingdom.

15. Joint ventures

	<i>Shares of net assets</i>	<i>Loans</i>	<i>Total</i>
	£m	£m	£m
At 1 January 2001.. .. .	3.2	1.2	4.4
Share of profit in year.. .. .	6.0	-	6.0
At 31 December 2001	9.2	1.2	10.4

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
Barking Power Ltd*	Ordinary £1	13.5%	Construction & operation of a power station
Thames Valley Power Ltd*	Ordinary £1	50.0%	Generation and supply

Note:

* Investment held by the London Power Company plc

London Electricity Group Plc has a long-term interest in Barking Power Ltd and shares control under a contractual arrangement. The Directors therefore consider Barking Power Ltd to be a joint venture.

Barking Power Ltd accounting reference date is 31st March.

All the above Joint Ventures operate within the United Kingdom.

16. Associates

Group	<i>Share of Net assets/ (liabilities)</i>	<i>Goodwill</i>	<i>Loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January, 2001	(8.9)	8.5	2.0	1.6
Conversion to unsecured loan notes	1.7	-	(1.7)	-
Amortisation of goodwill	-	(0.5)	-	(0.5)
Share of losses in year	(3.0)	-	-	(3.0)
Repayment	-	-	(0.3)	(0.3)
At 31st December, 2001.. .. .	(10.2)	8.0	-	(2.2)

Paypoint Ltd accounting reference date is 31st March.

Company	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January, 2001	6.8	2.0	8.8
Conversion to convertible unsecured loan notes	1.7	(1.7)	-
Repayment	-	(0.3)	(0.3)
At 1st January, 2001	8.5	-	8.5

Name of undertaking	Description of shares held	Proportion of nominal value of shares held	Principal activities
Paypoint Ltd	Ordinary £0.01	39.2%	Cash collection services
	Preference shares £0.01	16.1%	

The above associate operates within the United Kingdom.

During 2001 the outstanding loan of £1.65 million was converted into convertible unsecured loan notes of £1 each.

17. Other investments

Group	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January, 2001	5.0	2.4	7.4
Additions	-	0.2	0.2
Repayments	-	(0.2)	(0.2)
At 31st December, 2001	5.0	2.4	7.4

Company	<i>Shares</i>	<i>Loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January, 2001	5.0	1.1	6.1
Additions	-	0.2	0.2
At 31st December, 2001	5.0	1.3	6.3

Details of unlisted investments in which the group and company hold more than a 10% interest:

Name of undertaking	Description of shares held	Proportion of nominal value of shares held
London & Continental Railways Limited	Ordinary £0.25	11.27%

18. Stocks

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Raw materials and consumables	50.6	19.5	4.3	-
Work in progress	4.4	7.8	-	6.1
	55.0	27.3	4.3	6.1

19. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts falling due within one year:				
Trade debtors	217.6	110.1	27.5	97.9
Unbilled consumption	177.7	170.2	-	170.2
	395.3	280.3	27.5	268.1
Less securitisation	(100.0)	(92.5)	-	(92.5)
	295.3	187.8	27.5	175.6
Amounts owed by other group companies	2.6	37.0	436.2	50.0
Amounts owed by associates	0.7	2.3	-	-
Other debtors	19.5	18.1	46.3	16.5
Prepayments and accrued income	16.0	12.7	6.4	7.4
Advance corporation tax recoverable	-	3.4	-	3.4
Deferred taxation recoverable (Note 25) ..	0.3	2.7	0.3	2.7
	334.4	264.0	516.7	255.6
Amounts falling due after more than one year:				
Pension scheme prepayment	42.4	39.5	42.4	39.4
	42.4	39.5	42.4	39.4

In September 2000 London Electricity Group plc, formerly London Electricity plc entered into a commercial paper securitisation programme involving the sale of billed and unbilled trade debtors to a trust. Interest is charged monthly on trade debtors securitised based on a margin above the sterling equivalent of the US commercial paper rate payable by the issuer of the facility. The amount available under the securitisation is £100 million over a revolving term of 5 years, increasing to £175 million at the option of London Electricity Group plc. Funds based on the amount of trade debtor's receivable are advanced to London Electricity Group plc on a monthly basis, with a percentage of collected receivables deferred to cover interest, costs and bad debts. London Electricity Group plc is not obliged to support any losses suffered by the trust as a result of securitisation, nor does it intend to do so. Furthermore, the trust has agreed in writing that it will seek repayment of the funds advanced to London Electricity Group plc, including funding costs, only to the extent that sufficient funds are generated by the assets securitised and that it will not seek recourse in any other form.

20. Current asset investments

	Group		Company	
	31st December, 2001	31st December, 2000	31st December, 2001	31st December, 2000
	£m	£m	£m	£m
Unlisted				
Money market investments	19.9	19.2	10.4	11.0
	19.9	19.2	10.4	11.0

21. Borrowings

	Group		Company	
	31st December, 2001	31st December, 2000	31st December, 2001	31st December, 2000
	£m	£m	£m	£m
Amounts falling due within one year:				
Short term borrowings	554.6	424.7	626.3	242.7
Amounts falling due after more than one year:				
8% Eurobonds repayable 28th March, 2003	99.7	99.6	-	99.6
8 5/8% Eurobonds repayable 26th October 2005	99.5	99.4	-	99.4
Sutton Bridge Bonds	308.4	325.7	-	-
Loans due to fellow subsidiary undertakings	7.2	-	-	-
Loans due to subsidiary undertakings	-	-	131.4	-
Loans: Joint Ventures	36.3	-	35.0	-
	551.1	524.7	166.4	199.0

The 8% Eurobonds may not be redeemed prior to 28th March, 2003 except upon the occurrence of certain events (for example, a change in taxation law). In addition, the 8 5/8% Eurobonds may be redeemed in full together with accrued interest by either the 'Issuer' or 'Bondholders' upon the occurrence of certain events. On the 1st October, 2001 these bonds were transferred to London Power Networks, due to the implementation of the transfer scheme.

The secured bonds which are guaranteed by Sutton Bridge Power Ltd comprise two tranches of twenty five year bonds issued by Sutton Bridge Financing Limited. The first tranche comprises a principal amount of £195 million at a fixed interest rate of 8.625%. The second tranche comprises a principal amount of US\$150 million at a fixed interest rate of 7.97%. Sutton Bridge Financing Limited has entered into currency swap agreements with Enron Capital and Trade Resources Limited in order to convert the principal and interest payment on the US dollar bonds into sterling. The effect of these swaps is to convert the US\$150 million payable to an equivalent long-term payable with a principal of £91,930,151 and an effective interest rate of 8.45%. Due to Enron filing for Chapter 11 Bankruptcy, the bonds have been revalued at the year end rate of 1.4554. The weighted average interest rate on fixed rate borrowings is 8.57%. The bonds are secured by means of fixed and floating charges over substantially the net assets of the group and at all times rank *pari passu* and without preference among themselves. Interest is payable on the bonds semi-annually in arrears on 30th June, and 31st December, of each year.

The annual maturities of long-term debts outstanding at 31st December, 2001 were £17.0 million annually through to 2005 respectively.

22. Other creditors

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts falling due within one year:				
Payments received on account	9.7	6.0	0.2	6.0
Amounts owing for purchase of energy ..	148.4	175.8	114.9	175.8
Amounts owed to parent company	26.0	69.4	337.9	45.7
Trade creditors	110.1	77.2	64.4	90.1
Corporation tax	62.5	14.5	2.5	21.1
Other taxation and social security	2.6	4.0	2.4	2.4
Other creditors	227.3	115.8	12.2	88.5
Accruals and deferred income	72.1	61.7	14.4	36.2
Deferred tax creditor	14.9	5.0	-	-
Proposed dividends	20.4	0.4	20.4	0.4
Finance lease (note 23)	15.1	13.6	-	-
	<u>709.1</u>	<u>543.4</u>	<u>569.3</u>	<u>466.2</u>
Amounts falling due after more than one year:				
Finance lease (note 23)	366.9	381.9	-	-
Other creditors	4.9	2.2	-	2.2
	<u>371.8</u>	<u>384.1</u>	<u>-</u>	<u>2.2</u>

23. Obligations under leases

Net obligations under finance leases held by the group

Amount payable	<i>Group</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>
Within one year	15.1	13.6
In two to five years	62.4	61.8
In more than five years	304.5	320.1
	<u>382.0</u>	<u>395.5</u>

24. Provisions for liabilities and charges

Group

	<i>At 1st January, 2001</i>	<i>Utilised in the period</i>	<i>Released in the period</i>	<i>Transfer to other group companies</i>	<i>Arising during the year</i>	<i>At 31st December, 2001</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Insurance	6.5	(0.9)	(0.4)	–	0.3	5.5
Restructuring costs	6.4	(6.4)	–	–	1.0	1.0
Dilapidation	1.2	(1.1)	–	–	0.9	1.0
Other costs	10.2	(7.2)	–	–	4.1	7.1
Acquisition Provision						
Teesside Power	103.0	(14.2)	–	–	–	88.8
Total	127.3	(29.8)	(0.4)	–	6.3	103.4

Company

	<i>At 1st January, 2001</i>	<i>Utilised in the period</i>	<i>Released in the period</i>	<i>Transfer to other group companies</i>	<i>Arising during the year</i>	<i>At 31st December, 2001</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Insurance	2.7	(0.5)	(0.4)	–	0.3	2.1
Restructuring costs	6.4	(6.4)	–	–	1.0	1.0
Dilapidation	1.2	(1.1)	–	–	0.9	1.0
Other costs	8.3	–	–	(6.7)	–	1.6
Acquisition Provision						
Teesside Power	103.0	(10.7)	–	(92.3)	–	–
Total	121.6	(18.7)	(0.4)	(99.0)	2.2	5.7

The Teesside Power provision arose on the acquisition of the supply business of South Western Electricity. The provision represents the difference between the contract price and the estimated market electricity price. The discount rate used in arriving at the provision was a risk adjusted rate. The amount utilised in the period for the Teesside provision is net of £8.5 million relating to the unwinding of the discount and has been included within interest payable. This provision was transferred to London Electricity plc as part of the transfer scheme.

The insurance provision is based on an assessment of the Group's known liabilities as at 31st December, 2001. The restructuring provision relates primarily to business restructuring.

The provision for dilapidation represents the difference between the projected rental income from various properties and the amounts payable by the company for those properties under currently existing contracts.

25. Deferred Taxation

The amount provided for deferred taxation and the amounts for which provision has not been made are as follows:

Provided in accounts:

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1st January	(2.3)	(4.2)	2.7	0.8
Transfer from profit and loss	(12.3)	1.9	(2.4)	1.9
At 31st December	(14.6)	(2.3)	0.3	2.7

The deferred liability at 31st December, 2001 and 31st December, 2000 relates to other timing differences.

Potential liability not provided:

	<i>Group</i>		<i>Company</i>	
	<i>31st December, 2001</i>	<i>31st December, 2000</i>	<i>31st December, 2001</i>	<i>31st December, 2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Accelerated capital allowances	230.8	220.8	(11.0)	207.2
Other timing differences	(17.9)	6.8	13.3	5.5
	212.9	227.6	2.3	212.7

Total potential deferred taxation is computed at a corporation tax rate of 30%.

26. Derivatives and Other Financial Instruments

A discussion of the Group's objectives with regards to derivatives and other financial instruments is included within the Group's accounting policies in note 1. Advantage has been taken of FRS13, Derivatives and Other Financial Instruments, in relation to the exemption from disclosures on current debtors and current liabilities.

Fair values of assets and liabilities

The fair values of financial instruments represent the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Where market values are not available, fair values have been calculated by discounting cashflows at prevailing rates. Significant differences can arise between the fair value and the carrying amount of financial instruments that are recognised at historical cost amounts.

	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>
	<i>2001</i>	<i>2001</i>	<i>2000</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Long term investments	7.4	7.4	7.3	7.3
Debtors greater than one year	42.4	42.4	39.4	39.4
Current asset investments	19.9	19.9	19.2	19.2
Cash at bank and in hand	25.5	25.5	2.5	2.5
Short term borrowing	(554.6)	(554.6)	(244.7)	(244.7)
Long term borrowings	(566.2)	(551.1)	(213.6)	(199.0)
Interest rate swap	0.5	-	0.5	-

The Group has not included the fair value of the forward purchase contracts of energy, discussed in note 1, as these are all expected to be settled by physical delivery and are therefore outside the scope of FRS 13. In 2000 the directors took advantage of paragraph 53(c) of FRS 13 not to disclose the fair value of the Group's CFDs on the basis it was likely to be seriously prejudicial to the Group's interests.

Interest rate profile of financial liabilities

The interest rate profile of financial liabilities as at 31st December, 2001 was as follows:

	<i>Total</i>	<i>Floating rate</i>	<i>Fixed rate</i>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Pound Sterling	(554.6)	(245.6)	(309.0)
US Dollar	(103.1)	-	(103.1)
	<u>(657.7)</u>	<u>(245.6)</u>	<u>(412.1)</u>

Interest rate profile by currency is as follows:

	<u>Pound Sterling</u>	<u>US Dollar</u>
Weighted average interest rate %	8.47	7.97
Weighted average period (years)	11.6	21.0

At 31st December, 2001 London Electricity had interest rate swap on £8.0 million debt (2000: £8.0 million). The fair value of the interest rate swap outstanding at 31st December, 2001 was an asset of £0.5 million (2000: £0.5 million).

The benchmark for determining floating exchange rates is LIBOR.

Interest rate profile of financial assets

The interest rate profile of financial assets as at 31st December, 2001 was as follows:

	<u>Total</u>	<u>Floating rate</u>	<u>Fixed rate</u>	<u>Non bearing interest</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Financial assets	95.2	-	45.4	49.8

The weighted average interest rate on fixed rate financial assets is 4.1%.

Maturity of borrowings

The groups maturity of debt at 31st December, 2001 was as follows:

	<u>2001</u>
	<u>£m</u>
In one year or less or on demand	(554.6)
In more than one year but not more than two	(143.2)
In more than two years but not more than five years	(99.5)
In more than five years time	(308.4)
	<u>(1,105.7)</u>

Borrowing facilities

At 31st December, 2001 the group had bilateral committed undrawn borrowing facilities of £556.0 million of varying maturity dates.

The maturity of the committed undrawn borrowing facilities is as follows:

	2001
	<u>£m</u>
In less than one year	–
In more than one but less than two years	556.0
In more than two years	–
	<u>556.0</u>

Currency exposure

The table below shows the extent to which the group has monetary assets and liabilities in currencies other than their functional currencies. Foreign exchange differences on retranslating of such assets and liabilities are taken to the profit and loss account.

Functional currency of	Net foreign currency monetary assets/(liabilities)	
	<i>US Dollar</i>	<i>Total</i>
	<u>£m</u>	<u>£m</u>
Pound Sterling	103.1	103.1

Aggregated gains and losses on financial instruments used as hedges

Gains and losses on instruments used for hedging are not recognised until the transaction that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging and the movements are set out below.

	<i>Unrecognised contracts</i>	
	<i>Gains</i>	<i>Gains</i>
	<i>31st December,</i>	<i>31st December,</i>
	<i>2001</i>	<i>2000</i>
	<u>£m</u>	<u>£m</u>
Gains on hedges at beginning of year	0.5	0.5
Gains/(losses) arising in previous years that were recognised this year	–	–
	<u>0.5</u>	<u>0.5</u>
Gains/(losses) arising this year that were not recognised this year.. .. .	–	–
	<u>0.5</u>	<u>0.5</u>
Net gains on hedges at end of year	<u>0.5</u>	<u>0.5</u>
Of which are expected to be recognised in the profit and loss account:		
In more than one year	<u>0.5</u>	<u>0.5</u>
	<u>0.5</u>	<u>0.5</u>

In the table above the carried forward unrecognised net gain at 31st December, 2001 of £0.5 million equates to the difference between the fair value and book value of hedging instruments.

27. Share capital

	<i>Group and company</i>	
	<i>31st December, 2001</i>	
	<i>31st December, 2000</i>	
	<i>£m</i>	
	<i>£m</i>	
Authorised 651,480,454 ordinary shares of 58 1/3p each		
(2000: 257,172,207 ordinary shares of 58 1/3p each) ..	380.0	150.0
300,000,002 ordinary shares of 50p each	150.0	150.0
	<u>530.0</u>	<u>300.0</u>

Allotted, called up and fully paid

645,506,179 ordinary shares of 58 1/3p each		
(2000: 251,197,933 ordinary shares of 58 1/3p each) ..	376.5	146.5
	<u>376.5</u>	<u>146.5</u>

On 27th December, 2001 the share capital of London Electricity Group plc was increased by £230 million by the creation of 394,308,246 ordinary shares of 58 1/3p each.

28. Reserves and profit and loss account

	<i>Group and Company</i>
	<i>£m</i>
Share premium account	
At 1st January, 2001	13.9
At 31st December, 2001	<u>13.9</u>
Capital redemption reserve	
At 1st January, 2001	11.0
At 31st December, 2001	<u>11.0</u>

Profit and loss account

	<i>Group</i>	<i>Company</i>
	<i>£m</i>	<i>£m</i>
At 1st January 2001	492.0	479.5
Transfer to other group companies (Transfer scheme)	-	(491.2)
Retained profit for the period	42.1	44.1
At 31st December, 2001	<u>534.1</u>	<u>32.4</u>
Total reserves at 31st December, 2001	<u>559.0</u>	<u>57.3</u>

29. Pension commitments

The principal pension scheme available to employees of London Electricity Group plc has been the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. Since April 1994 new employees have been offered membership of the London Electricity 1994 Retirement Plan (the Plan) a defined contribution scheme.

The ESPS provides pensions and related benefits based on the final pensionable pay of employees throughout the electricity supply industry. The assets of the scheme are held in a separate trustee administered fund.

A full valuation of the scheme was undertaken by Bacon & Woodrow as at 31st March, 2001. At that date the market value of assets relating to the scheme was £1,089 million, which represented a funding ratio of 118.0%. The resultant surplus will be used to increase benefits to pensioners and to facilitate reductions in employer and employee contributions. The valuation adopted a market led approach. The results of this valuation will be implemented with effect from 1st April, 2002.

The actuarial valuation of the London Electricity Group plc ESPS used for the purpose of these accounts was carried out at 31st March, 1998 by Bacon & Woodrow, consulting actuaries. The valuation method adopted was the attained age method.

At 31st March, 1998, the actuarial value of the assets relating to London Electricity Group plc was £756.1 million, which represented 110.1% of the actuarial value of the accrued benefits. Accrued benefits include all benefits for pensioners and former members as well as benefits based on service to date for active members, allowing for future salary rises. The resultant surplus is being used to increase benefits to pensioners and to facilitate reductions in employer and employee contributions.

In order to calculate the pension charge in accordance with the group's accounting policy, a separate actuarial valuation was prepared by Bacon & Woodrow, consulting actuaries, as at 31st March, 1998. This valuation was determined using the projected unit credit method, and resulted in a regular cost of 10.6% of pensionable pay. This regular cost has been reduced by the benefit of an accounting surplus arising, which is being spread over 11 years, being the average remaining service life of employees. The resulting credit to profit in the year was £4.7 million. A prepayment of £42.4 million is included in debtors greater than one year, as a result of the spreading of the surplus. The directors have reviewed the recoverability of the prepayment of £42.4 million and are of the opinion that the actuarial surplus which gives rise to the prepayment can be utilised under the rules of the scheme, within the foreseeable future.

Under the Plan the charge to profit is the contribution paid by London Electricity Group plc. The amount paid for the year ended 31st December, 2001 was £2.1 million (2000: £1.7 million).

The total net credit for pension schemes in the accounts for the year ended 31st December, 2001 is £2.6 million (2000: £6.0million).

Further disclosures are required in accordance with the transitional arrangements of FRS17 - Retirement Benefits in respect of the ESPS. A separate actuarial valuation was prepared by Bacon & Woodrow as at 31st December, 2001 for this purpose. This valuation was determined using the projected unit credit method (PUC method). ESPS is generally closed to new members so, using the PUC method, the current service cost will increase as the active membership of the scheme approaches retirement.

The major assumptions used were:

	(% per annum)
Inflation assumption.. .. .	2.3
Rate of increase in salaries	3.3
Rate of increase in pensions in payment and deferred pensions	2.3
Rate used to discount scheme liabilities	5.6
Expected rate of return on equities	7.1
Expected rate of return on bonds	5.1
Expected rate of return on other assets	5.1

The assets in the scheme were:

	2001
	£m
Equities	744.0
Bonds	248.0
Total market value of assets.. .. .	992.0
Less defined benefits obligation	(940.0)
Surplus in scheme	52.0
Less deferred tax @ 35%	(18.0)
Net pension asset (after deferred tax)	34.0

30. Financial commitments

Sutton Bridge Power Ltd has an agreement for the operation and maintenance of the plant located in Sutton Bridge, Lincolnshire. The total commitment of this agreement is £68.6 million (2000: £75.9 million).

The annual commitments of the group under non-cancellable operating leases are as follows:

	31st December, 2001		31st December, 2000	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Expiring within				
One year	9.8	-	0.5	-
Two to five years inclusive	33.4	-	0.3	-
Over five years	75.1	-	7.5	-
	118.3	-	8.3	-

Capital commitments of the group and company were:

	Group		Company	
	31st December, 2001	31st December, 2000	31st December, 2001	31st December, 2000
	£m	£m	£m	£m
Contracted for but not provided for	335.6	249.1	-	225.5

31. Commitments and contingent liabilities

Under Part II A of the Environmental Protection Act 1990 retroactive liability may be imposed on landowners for the clean up of land identified by local authorities as contaminated. Land can be identified as contaminated if significant harm is being caused, pollution of controlled waters is occurring and there is a significant possibility of controlled waters being contaminated. If London Electricity Group plc's sites are contaminated, clean up costs may be incurred in the future. However, it is not currently possible to calculate a reliable estimate of clean up costs.

Other than the matters noted above, there were no other material commitments, contingent liabilities or guarantees apart from those given in respect of certain subsidiaries in the ordinary course of business.

32. Post balance sheet events

On 18th January, 2002, London Electricity Group plc bought TXU Europe Group plc's UK distribution business and its 50 per cent interest in 24Seven Utility Services Ltd for £560 million and the assumption of £750 million of debt. The acquired distribution business was renamed EPN Distribution Ltd.

EPN's distribution business is one of the largest in the UK and consists of the assets and wires that deliver electricity through a 90,000km network in East Anglia and south-east England. 24Seven Utility Services Ltd - a Joint Venture between TXU Europe Group plc and London Electricity Group plc established in April 2000 operates and maintains the two distribution networks.

On 7th February, 2002 London Power Company confirmed that it had purchased Northern Electric's wind power portfolio for £3.5 million. It has also agreed to invest £3 million in a marine technology company, Marine Current Turbines Ltd to carry out research into the possibility of installing underwater turbines to harness the power of high tidal stream currents.

33. Related party transactions

During the year the group purchased services from and provided services to its joint venture and associate companies as follows:

	<i>31st December, 2001</i>	<i>31st December, 2000</i>
Sales:	<i>£m</i>	<i>£m</i>
Services Supplied	50.5	67.8
Purchases:		
Services Received	(58.5)	(28.6)
Tangible Fixed Assets	(64.3)	(47.2)
	(72.3)	(8.0)
Amounts outstanding at 31st December, 2001	(45.9)	(46.1)

34. Ultimate parent company

At 31st December, 2001 London Electricity Group's plc immediate parent company was considered by the directors to be London Electricity Group Holdings plc.

Electricité de France, a French state owned company is regarded by the directors as the company's ultimate parent company. Copies of that company's consolidated accounts may be obtained from Electricité de France, 22-30 Avenue de Wagram, 75382, Paris Cedex 08, France.

AUDITOR'S REPORT

We have audited London Electricity Group plc's accounts for the year ended 31st December, 2001 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 34. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with London Electricity Group plc is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group as at 31st December, 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

TAXATION

U.K. Taxation

The following applies only to persons who are the absolute beneficial owners of Notes and is a summary of each Issuer's understanding of current law and Inland Revenue practice in the United Kingdom relating to certain aspects of the taxation of interest in respect of the Notes. Some aspects do not apply to certain classes of person (such as dealers and persons connected with each Issuer) to whom special rules may apply. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

A. Withholding of Tax on Interest on the Notes

1. United Kingdom withholding tax (including such withholding or deduction for or on account of tax by issuers, paying agents and collecting agents) was abolished in relation to interest payments made (or, in the case of collecting agents, received) on or after 1st April, 2001 in respect of securities listed on a "recognised stock exchange", as defined in section 841 of the Income and Corporation Taxes Act 1988 (the "Act") (the London Stock Exchange is such a recognised exchange). Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction for or on account of United Kingdom tax.

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

Payments of interest on Notes which are not yearly interest can be made without deduction or withholding.

In all other cases, an amount must be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20%), subject to any direction to the contrary by the Inland Revenue under an applicable double taxation treaty.

2. Noteholders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual, or who, after 5th April, 2002, either pays amounts payable on the redemption of Notes which are relevant discounted securities for the purposes of the Finance Act 1996 to or receives such amounts for the benefit of an individual. However, in relation to amounts payable on redemption of Notes, Inland Revenue published practice indicates that the Inland Revenue will not exercise its power to obtain information where such amounts are paid or received on or before 5th April, 2003. Such information may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

B. Tax by direct assessment

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

However, interest with a United Kingdom source will not generally be chargeable to United Kingdom tax by direct assessment or, if tax has been withheld or deducted, to further United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom at all relevant times unless that Noteholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Noteholders.

In general, Noteholders which are within the charge to United Kingdom corporation tax will be charged to tax on income on all returns, profits or gains on, and fluctuations in value of, the Notes

(whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Proposed EU Savings Directive

On 13th December, 2001 the Council of the European Union published a revised draft directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments. The proposed directive is not yet final, and may be subject to further amendment.

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the "*Programme Agreement*") dated 22nd May, 2002, agreed with the Issuers a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuers have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

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

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will offer and sell Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, only in accordance with Rule 903 of Regulation S under the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Pricing Supplement.

United Kingdom

Each Dealer has represented, warranted and agreed and each further Dealer appointed under the Programme will be required to represent, warrant and agree that:

- (i) in relation to Notes which have a maturity of one year or more and which are to be admitted to the Official List, it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of such Notes to listing in accordance with Part VI of the Financial Services and Markets Act 2000 (the "*FSMA*") 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 (as amended) or the FSMA;
- (ii) in relation to Notes which have a maturity of one year or more and which are not to be admitted to the Official List, it has not offered or sold and, prior to the expiry of the period of six months from the issue date of such Notes, will not offer or sell any such Notes to persons in the United Kingdom 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 (as amended);
- (iii) in relation to any Notes which must be redeemed before the first anniversary of the date of their issue, (a) it is a person whose ordinary activities involve it in acquiring, holding,

managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the relevant Issuer;

- (iv) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the relevant Issuer; and
- (v) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "***Securities and Exchange Law***") and each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the relevant Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

Neither the relevant Issuer, the Trustee nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of LPN passed on 6th December, 2001 and 3rd April, 2002 and LEG passed on 6th December, 2001 and 3rd April, 2002 and by resolutions of a committee of each Board of Directors each passed on 20th May, 2002.

Each issue of Notes under the Programme will be authorised by a Committee of the Board of Directors of the relevant Issuer.

Listing of Notes

The admission of Notes to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. The listing of the Programme in respect of Notes is expected to be granted on or before 24th May, 2002.

Documents Available

So long as Notes are capable of being issued under the Programme, copies of the following documents will, when published, be available from the registered office of each Issuer and from the specified office of the Paying Agent for the time being in London:

- (i) the Memorandum and Articles of Association of each Issuer;
- (ii) the consolidated audited financial statements of LEG in respect of the financial years ended 31st December, 2000 and 2001 and the auditor's report in respect of its financial statements for the year ended 31st December, 2001. LEG currently prepares audited consolidated financial statements on an annual basis;
- (iii) the unconsolidated audited financial statements of LPN in respect of the period from the date of incorporation to 31st December, 2000 and the financial year ended 31st December, 2001. LPN currently prepares unconsolidated audited financial statements on an annual basis;
- (iv) the annual reports and accounts of London Electricity plc (now known as LEG) for the years ended 31st December, 1999 and 31st December, 2000;
- (v) the most recently published audited annual financial statements of each Issuer. Neither Issuer prepares interim financial statements;
- (vi) the Programme Agreement, the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;
- (vii) a copy of this Offering Circular;
- (viii) the letter of consent of Ernst & Young referred to below;
- (ix) any future offering circulars, prospectuses, information memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its holding of Notes and identity) to this Offering Circular and any other documents incorporated herein or therein by reference; and
- (x) in the case of each issue of listed Notes subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of either of the Issuers or of their respective Groups and there has been no material adverse change in the financial position or prospects of either of the Issuers or of their respective Groups since 31st December, 2001.

Litigation

Neither Issuer nor any other member of their respective Group is or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which either Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of that Issuer or its Group.

Auditors

The auditors of each Issuer are Ernst & Young LLP, Registered Auditors, who have audited, without qualification, in accordance with generally accepted auditing standards in the United Kingdom (i) the financial statements of LEG for each of the two financial years ended on 31st December, 2001; and (ii) the financial statements of LPN for the period from the date of incorporation to 31st December, 2000 and the financial year ended 31st December, 2001.

Ernst & Young LLP, the auditors of LEG and LPN, has given and has not withdrawn its written consent to the inclusion herein of its audit report on the accounts of LEG and the references thereto and to its name in the form and context in which they appear and has authorised the contents of that part of the listing particulars for the purposes of Regulation 6(i)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

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