

**British Gas**



**British Gas public limited company**

(incorporated in England and Wales with limited liability)  
(registered number 2006000)

**£200,000,000**

**8<sup>3</sup>/<sub>4</sub> per cent. Bonds Due 2025**

The issue price of the £200,000,000 8<sup>3</sup>/<sub>4</sub> per cent. Bonds Due 2025 (the "Bonds") is 101.269 per cent. of their principal amount. Interest on the Bonds will be payable annually in arrear on 27th June, the first payment to be made on 27th June, 1996. Payments on the Bonds will be made without deduction for or on account of taxes of the United Kingdom as described under "Terms and Conditions of the Bonds—Taxation".

Application has been made to The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") for the Bonds to be admitted to the Official List. Copies of this document have been delivered to the Registrar of Companies in England and Wales as required by Section 149 of the Financial Services Act 1986.

The Bonds mature on 27th June, 2025 but may be redeemed before then at the option of British Gas public limited company (the "Issuer") in whole or in part at any time at the higher of their principal amount and an amount calculated by reference to yields on United Kingdom Government Stock, together with accrued interest. The Bonds are also subject to redemption in whole (but not in part) at their principal amount together with accrued interest, at the option of the Issuer, in the event of certain changes affecting taxes of the United Kingdom. See "Terms and Conditions of the Bonds—Redemption and Purchase".

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond"), without Coupons or Talons, which will be deposited with a common depository on behalf of Cedel Bank, société anonyme ("Cedel") and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 27th June, 1995 (the "Closing Date"). The Temporary Global Bond will be exchangeable for definitive Bonds in bearer form in the denominations of £1,000, £10,000 and £100,000 each with Coupons and a Talon for further Coupons attached on or after a date which is expected to be 7th August, 1995 upon presentation of certificates in a form required by United States tax laws as to non-U.S. beneficial ownership as more particularly described under "Subscription and Sale".

**HSBC Markets**

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 by the London Stock Exchange for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries (together the "Group") and the Bonds. The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular does not constitute an offer of the Bonds, or an invitation by or on behalf of the Issuer or the Manager (as defined under "Subscription and Sale") to subscribe or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and distribution of this Offering Circular, see "Subscription and Sale" below.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered, directly or indirectly, within the United States or to or for the account or benefit of U.S. persons, as part of the distribution of the Bonds, all as set out in "Subscription and Sale" below.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer or the Manager. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

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## TABLE OF CONTENTS

	Page
TERMS AND CONDITIONS OF THE BONDS .....	3
USE OF PROCEEDS .....	8
BRITISH GAS PUBLIC LIMITED COMPANY .....	9
Incorporation and Business.....	9
Directors.....	13
Extract from 1995 First Quarter Results .....	14
Capitalisation of the Group .....	15
UNITED KINGDOM TAXATION .....	16
SUBSCRIPTION AND SALE .....	18
GENERAL INFORMATION .....	19

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

## TERMS AND CONDITIONS OF THE BONDS

*The following is the text of the Terms and Conditions of the Bonds which, subject to amendment, will appear on the reverse of each Bond in definitive form:*

The £200,000,000 8¾ per cent. Bonds Due 2025 (together with any further bonds constituted pursuant to Condition 10 and forming a single series therewith, the "Bonds") of British Gas public limited company (the "Issuer") form a series of Bonds constituted by a supplemental trust deed dated 27th June, 1995 (the "Supplemental Trust Deed") and made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall wherever the context so admits include such company and all other persons for the time being the trustee or trustees of the Trust Deed (as defined below)). The Supplemental Trust Deed is supplemental to a master trust deed (the "Principal Trust Deed") dated 13th February, 1990 and made between the Issuer and the Trustee. The Supplemental Trust Deed and the Principal Trust Deed are together referred to as the "Trust Deed". The Trustee shall act as trustee for the holders of the Bonds (the "Bondholders") in accordance with the provisions of the Trust Deed (copies of which, together with copies of the Paying Agency Agreement dated 27th June, 1995 (the "Paying Agency Agreement") between the Issuer, the initial Paying Agents (as defined below) and the Trustee, are available for inspection at the registered office for the time being of the Trustee in London, being at the date of the Supplemental Trust Deed at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office of each of the Principal Paying Agent and the other Paying Agents referred to in Condition 5 (together the "Paying Agents")). The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. The Bondholders and the holders of the bearer interest coupons appertaining to the Bonds (the "Couponholders" and the "Coupons" respectively) and the talons for further Coupons (the "Talons") are deemed to have notice of, are bound by, and are entitled to the benefit of, all of the provisions contained in the Trust Deed. In these Conditions, the expression "Coupons" shall, unless the context otherwise requires, include the Talons. Expressions defined in the Trust Deed shall have the same meanings in these Conditions.

### 1. Status

The Bonds and the Coupons constitute direct, unconditional and unsecured obligations of the Issuer and rank *pari passu* without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds and the Coupons shall (subject to such exceptions as are from time to time applicable under the laws of England) rank equally with its other present and future unsecured obligations (other than subordinated obligations, if any).

### 2. Form, Denomination and Title

The Bonds are serially numbered and in bearer form in the denominations of £1,000, £10,000 and £100,000 each with 25 Coupons and one Talon for further Coupons attached thereto on issue. Title to the Bonds and Coupons will pass by delivery and, except as ordered by a court of competent jurisdiction or as required by law, the Issuer, the Trustee and the Paying Agents shall be entitled to treat the bearer of any Bond or Coupon as the absolute owner thereof and shall not be required to obtain any proof thereof or as to the identity of the bearer. Bonds of one denomination are not exchangeable for Bonds of any other denomination.

### 3. Interest

The Bonds bear interest from 27th June, 1995 at the rate of 8¾ per cent. per annum and such interest will be payable annually in arrear on 27th June in each year.

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

The Bonds will cease to bear interest from the due date for redemption unless payment of principal, premium (if any) or interest is improperly withheld or upon due presentation refused.

### 4. Redemption and Purchase

#### (a) Final Redemption

Unless previously redeemed as provided under Conditions 4(b) and (c) or purchased and cancelled as provided under Conditions 4(d) and (e), the Bonds will be redeemed at their principal amount on 27th June, 2025.

*(b) Redemption at the Option of the Issuer*

The Issuer may, before 27th June, 2025, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 12 (which notice shall be irrevocable), redeem the Bonds in whole or in part (but if in part, in integral multiples of £1,000,000 of the principal amount thereof), at the price which shall be the higher of the following, together with interest accrued up to the date of redemption:

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

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

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

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

*(c) Redemption for Taxation Reasons*

If the Issuer satisfies the Trustee immediately prior to the giving of the notice referred to below that on the occasion of the next payment in respect of the Bonds the Issuer would be unable to make such payment without having to pay additional amounts as described in Condition 6, and such requirement arises by reason of a change in the laws of the United Kingdom or any political sub-division thereof or taxing authority therein or in the interpretation or application thereof, which change becomes effective on or after 27th June, 1995, and such inability cannot be avoided by the Issuer taking reasonable measures (such measures not involving any material additional payments by, or expense for, the Issuer) the Issuer may, having given not less than 30 nor more than 45 days' notice to the Bondholders in accordance with Condition 12, redeem all, but not some only, of the Bonds at their principal amount together with interest accrued to the date of redemption, provided that the date fixed for redemption shall not be earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or make such withholding or deduction, as the case may be, were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 4(c), the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the inability referred to above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of such condition precedent, in which event it shall be conclusive and binding on the Bondholders and the Couponholders. Any notice of redemption given to Bondholders by the Issuer under this Condition 4(c) shall be irrevocable.

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

(d) *Purchases*

The Issuer or any subsidiary of the Issuer may at any time purchase beneficially or procure others to purchase beneficially for its account Bonds in the open market or otherwise at any price. Each such purchase of Bonds shall include all unmatured Coupons appertaining thereto. If purchases are made by tender, tenders must be available to all Bondholders alike.

(e) *Cancellation*

All Bonds redeemed or purchased under this Condition 4 (together with all unmatured Coupons appertaining thereto attached or surrendered therewith) shall, in the case of redemption or a purchase by the Issuer, be cancelled forthwith and, in the case of a purchase by a subsidiary of the Issuer, be cancelled no later than the date of the next payment of interest, and may not be resold or reissued.

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

(a) Payments of principal, premium (if any) and interest will be made against presentation and surrender of Bonds (in the case of principal and premium (if any)) and Coupons (in the case of interest) at the specified office of any Paying Agent by a cheque drawn on a branch of, or by transfer to a sterling account maintained by the payee with, a bank in the City of London.

(b) The names of the initial Principal Paying Agent and other Paying Agents and their respective specified offices appear at the end of these Conditions.

(c) All payments are 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 6.

(d) Upon the due date for redemption of any Bond, unmatured Coupons and the Talon, if unmatured, relating to such Bond (whether or not attached) shall become void and no payment shall be made in respect of such Coupons and no exchange shall be made in respect of such Talon. If the due date for redemption of a Bond is not a date on which payment of interest is due in respect thereof, the interest accrued from the preceding date for the payment of interest (or 27th June, 1995, as the case may be) shall be payable only against presentation of such Bond.

(e) If the due date for payment of any amount of principal, premium (if any) or interest in respect of any Bond is not at any place of presentation of the relevant Bond or Coupon a business day, then the holder will not be entitled to payment at such place of the amount due until the next following business day at such place and will not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "business day" means any day on which banks are open for business in the relevant place of presentation and in the City of London and (if the place of presentation is not the City of London) on which dealings in foreign currencies may be carried on in the City of London and in such place of presentation.

(f) On and after 27th June, 2020, a Talon may be surrendered at the specified office of any Paying Agent in exchange for a further 5 Coupons, subject to the provisions of Condition 8.

(g) The Issuer reserves the right at any time to terminate the appointment of any Paying Agent and, with the approval of the Trustee, to vary the terms of appointment of any Paying Agent or to appoint additional or other Paying Agents provided that it will at all times maintain Paying Agents having specified offices in a major city approved by the Trustee in continental Europe and, so long as the Bonds are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, in London. Any variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 nor less than 30 days' prior notice thereof shall have been given by the Issuer to the Bondholders in accordance with Condition 12. Notice of any changes in the specified offices of the Paying Agents will be given promptly by the Issuer to the Bondholders in accordance with Condition 12.

## **6. Taxation**

All payments of principal, premium (if any) and interest in respect of the Bonds and the Coupons 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 the United Kingdom or any political subdivision thereof, or any authority of or in the United Kingdom having power to tax,

unless the withholding or deduction of such taxes or duties is compelled by law. In that event, the Issuer will pay such additional amounts of principal, premium (if any) and interest as will result in the payment to the Bondholders or Couponholders of the amounts which would otherwise have been receivable in respect thereof had no such withholding or deduction been made, except that no such additional amount shall be payable in respect of any Bond or Coupon presented for payment:

- (a) by, or on behalf of, a person who is liable to such taxes or duties on such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Bond or Coupon; or
- (b) in the United Kingdom; or
- (c) to the extent that any such withholding or deduction could be avoided by the person presenting the Bond or Coupon for payment or any other person on whose behalf such Bond or Coupon is presented for payment satisfying any statutory requirements or making a declaration of non-residence or other similar claim for exemption to the relevant tax authority but that person fails to do so; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder would have been entitled to such additional amounts on presenting the same for payment on such thirtieth day.

For the purposes of these Conditions, "Relevant Date" in relation to any Bond or Coupon means the due date for payment thereof but, if the full amount of the moneys payable on such due date has not been received by the Principal Paying Agent or the Trustee on or prior to the first date on which payment could be claimed by the holder of the relevant Bond or Coupon, it means the date on which notice is duly given to the Bondholders in accordance with Condition 12 that such moneys have been so received.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any obligation undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

#### **7. Repayment on Event of Default and Enforcement**

Upon the happening of any of the events listed in (a) to (f) of this Condition and the Trustee giving written notice to the Issuer to such effect, the outstanding Bonds shall become immediately due and repayable at their principal amount together with accrued interest.

If the event falls within (b) to (f) of this Condition, no such notice may be given by the Trustee unless the Trustee certifies to the Issuer that the happening of such event is in its opinion materially prejudicial to the interests of the Bondholders. Subject thereto, the Trustee may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Bonds for the time being outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall, give such notice as aforesaid.

The said events are that:

- (a) the Issuer defaults in the payment of any principal or premium (if any) due in respect of the Bonds or defaults for more than 30 days in the payment of any interest due in respect of the Bonds; or
- (b) the Issuer defaults in the performance or observance of any obligation or provision under the Trust Deed (in so far as such obligation or provision relates to the Bonds) or the Bonds (other than any obligation for the payment of any principal, premium (if any) or interest in respect of the Bonds) which continues for more than 90 days after written notice thereof shall have been given to the Issuer by the Trustee (except where the Trustee shall have certified to the Issuer that such default is incapable of remedy, when no such notice or continuation shall be required); or
- (c) a resolution is passed, or a final order of a court in the United Kingdom is made and, where possible, not discharged or stayed within a period of 90 days, that the Issuer be wound up or dissolved; or
- (d) an encumbrancer takes possession or an administrative or other receiver or similar officer is appointed of the whole or substantially the whole of the assets or undertaking of the Issuer or

an administration or similar order is made in relation to the Issuer unless such taking of possession, appointment or order is released, discharged or cancelled within 90 days; or

- (e) the Issuer ceases to carry on all or substantially all of its business; or
- (f) the Issuer is adjudicated bankrupt or insolvent by a court of competent jurisdiction in England or is unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986.

At any time after the Bonds shall have become due and repayable, the Trustee may, at its discretion and without further notice, but subject as provided in the Conditions, take such proceedings against the Issuer as it may think fit to enforce repayment of the Bonds together with accrued interest but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of not less than one-fifth in principal amount of the outstanding Bonds and (b) it shall have been indemnified to its satisfaction. Only the Trustee may pursue the remedies available under the general law or under the Trust Deed to enforce the rights of the Bondholders and Couponholders and no such holder will be entitled to proceed against the Issuer unless the Trustee, having become bound to do so in accordance with the terms of the Trust Deed, fails or neglects to do so within a reasonable period and such failure or neglect shall be continuing.

#### **8. Prescription**

Bonds and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within ten years and five years respectively from the Relevant Date therefor. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to the provisions of this Condition or Condition 5.

#### **9. Modification, Waiver, Substitution of Principal Debtor and Meetings of the Bondholders**

(a) The Trustee may agree, without the consent of the Bondholders or the Couponholders, to any modification of the provisions of the Trust Deed, the Bonds or the Coupons which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (subject to certain exceptions) is not materially prejudicial to the interests of the Bondholders. The Trustee may also agree without any such consent to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed, the Bonds or the Coupons which is not in its opinion materially prejudicial to the interests of the Bondholders.

(b) The Trustee may also agree, without any such consent, to the substitution of another company as principal debtor under the Trust Deed, the Bonds and the Coupons, subject to the relevant provisions of the Trust Deed, to such requirements as the Trustee may direct in the interests of the Bondholders and to the Bonds carrying the unconditional and irrevocable guarantee of the Issuer or of the Successor in Business (as defined in the Trust Deed) of the Issuer unless the substitute principal debtor is the Successor in Business of the Issuer.

(c) The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons present holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons present being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain of these Conditions and provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution is two or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in principal amount of the Bonds for the time being outstanding. A resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. The Trust Deed provides that a resolution in writing signed by the holders of 95 per cent. in principal amount of the Bonds will be binding on all Bondholders.

(d) Any such modification, waiver, authorisation or substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any such

modification or substitution shall be notified to the Bondholders as soon as possible thereafter in accordance with Condition 12.

(e) In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation, determination or substitution as aforesaid), the Trustee shall have regard to the interests of the Bondholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequence of such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

#### **10. Further Issues**

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

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

If a Bond or Coupon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Principal Paying Agent in London on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

#### **12. Notices**

All notices to the Bondholders will be valid if published in a daily newspaper in the English language of general circulation in London or, if in any case this is not, in the opinion of the Trustee, practicable, in at least one leading daily English language newspaper with circulation in Europe approved by the Trustee. It is expected that publication will be made in the *Financial Times*. Such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

#### **13. Indemnification of Trustee**

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

#### **14. Governing Law**

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

### **USE OF PROCEEDS**

The net proceeds of the issue of the Bonds, expected to amount to approximately £197,538,000, will be used for the general corporate purposes of the Group.



## BRITISH GAS PUBLIC LIMITED COMPANY

### **Incorporation and Business**

The Issuer, one of the ten largest British companies (based on sales), is the parent of the Group and is involved in gas and oil activities worldwide. Since its privatisation in 1986, the Issuer has adopted a strategy both to diversify from its traditional business of gas supply in Great Britain and also to expand its exploration and production and other activities.

The primary activity of the Issuer is the purchase, transmission, distribution, transportation, supply and sale of gas in Great Britain, supported by a broad range of services and the marketing of gas appliances. The Issuer supplies gas to approximately 18.8 million consumers. More than half the gas sold by the Issuer is used by approximately 18.4 million residential consumers; commercial and industrial consumers account for the remaining sales.

On 17th December, 1993, the Issuer announced plans to restructure its UK gas business (the "UK Gas Business"), with the objective of becoming a leaner, more competitive and more commercially focused organisation. In March 1994, the UK Gas Business was reorganised, and now comprises five business units: TransCo (gas transportation and storage), Public Gas Supply, Business Gas, Service and Retail. By the end of 1994, out of the approximately 25,000 jobs expected to be lost in the Issuer's UK Gas Business, almost 10,000 employees had taken voluntary redundancy, and out of the £1,650 million restructuring charge taken in the 1993 financial statements, £338 million had been spent.

The Issuer formalised its exploration and production activities in the exploration and production business ("Exploration and Production") in 1989 with a view to becoming a significant international participant in worldwide gas and oil exploration and production. The majority of the Issuer's exploration and production assets are located in the UK Continental Shelf ("UKCS") but it now has interests in 19 other countries worldwide.

Net gas and oil production from UKCS fields in 1994 amounted to 71 million barrels of oil equivalent, approximately 86 per cent. of the Issuer's total worldwide production. On the UKCS, the South Morecambe field is Exploration and Production's largest single asset by size of reserves and production, accounting for over 44 per cent. of its UKCS proved reserves and 54 per cent. of its UKCS production in 1994.

In October 1994, production started on schedule from the Issuer's wholly owned North Morecambe gas field. This £600 million project centres around one of the most sophisticated and efficient gas processing terminals in Europe.

In 1994 the Issuer disposed of its 53 per cent. stake in Bow Valley Energy, a Canadian natural resource company, for £348 million.

In July 1992, the Issuer announced that, in partnership with the Italian state-owned oil company Agip S.p.A., it had won the exclusive right to negotiate for the development of the Karachaganak gas condensate field in Kazakhstan. In October 1992, Grynberg Production Corporation ("Grynberg"), a Colorado company, filed suit in Texas against the Issuer and others claiming an interest in the Karachaganak field or in the profits of the Issuer for such field. The Issuer and Grynberg have settled the dispute and the litigation has been dismissed with prejudice. In March 1995, the Issuer, Agip S.p.A. and RAO Gazprom signed a Production Sharing Principles Agreement, which is intended to reverse the current decline in production levels.

In March 1995, the Issuer announced an agreement (subject to the approval of the Russian authorities) to acquire a further 25 per cent. interest in KomiArctic Oil, giving the Issuer a 50 per cent. interest in the company, which continues to develop the Upper Vozey oilfield north of the Arctic circle.

The first gas from the Issuer's Miskar field in Tunisia arrived onshore in May 1995, three months ahead of schedule.

The Issuer's international downstream activities are pursued through several business units: British Gas Global, British Gas Power Generation, and Pipeline Integrity International, within a regional framework designed to coordinate upstream and downstream activities.

Through these activities, the Issuer aims to become a major developer of gas markets internationally, by investing in and developing gas distribution businesses and by the development of gas-fired power stations in emerging energy markets. Participation in gas

transportation and storage projects will be in support of these activities and in support of the activities of Exploration and Production. Other support activities include the provision of contracting, consultancy and advisory services, project management and the licensing of British Gas technology.

In February 1991, the Issuer concluded the purchase of The Consumers Gas Company Ltd. of Canada ("Consumers Gas") for approximately C\$1.1 billion. The Issuer disposed of 15 per cent. of the ordinary shares of Consumers Gas in March 1992 through a public offer. In November 1993, the Issuer agreed to sell the remaining 85 per cent. shareholding in Consumers Gas to Interprovincial Pipe Line System Inc. This sale, for C\$1.2 billion, was completed in June 1994. The decision to sell the shareholding was in response to an international gas market which has changed significantly since Consumers Gas was acquired. The Issuer is now focusing its international activities on rapidly growing and emerging markets, where there is a greater opportunity to apply expertise and to add value.

The Issuer has, either directly or via a consortium, approximately a 33 per cent. stake in MetroGas SA, which was acquired as part of the privatisation of the Argentine gas industry. MetroGas SA is the largest gas distribution company in Argentina, currently supplying 1.8 million customers — nearly 30 per cent. of all gas sold in Argentina.

In April 1992, the Issuer acquired Ballylumford power station, the largest electricity generating station in Northern Ireland, from HM Government for £130 million. Work to convert the station from oil firing to natural gas firing is expected to be completed in 1996. A contract has been awarded to lay a gas pipeline from Scotland to Northern Ireland and construction is due to begin during 1995. The pipeline will serve the Ballylumford power station and will allow the development of new markets in Northern Ireland.

Construction was started in January 1994 by Gentin Sanyen Power (in which the Issuer has a 20 per cent. stake) on a 710 megawatt combined cycle gas turbine power station at Kuala Langat, Malaysia. The station is expected to begin to operate at full output in 1995, and will be the first independent power station to go into operation in Malaysia.

During 1994 the Issuer held a 39 per cent. stake in Natural Gas Clearinghouse ("NGC"), the largest independent gas marketing company in the USA. In March 1995, NGC and Trident NGL Holdings Inc. were merged to form NGC Corporation. NGC partners will own 82 per cent. of the merged company, former Trident shareholders will own 13 per cent., and the remaining 5 per cent. of stock will be distributed to either NGC partners or former Trident shareholders (or both) dependent on future stock performance. The merged company will be a leading gatherer, processor, transporter and marketer of natural gas and natural gas liquids in the USA.

During 1994 the Issuer formed a joint venture company, Accord Energy Ltd., with NGC (now NGC Corporation) to trade gas, oil and electricity in the UK and in continental Europe.

The Issuer has led a technical study for the proposed pipeline connecting the British and Belgian gas systems. The Issuer has a 40 per cent. shareholding in Interconnector (UK) Ltd, which plans to build the interconnecting pipeline between Bacton in the UK and Zeebrugge in Belgium. The Issuer has booked 8 billion cubic metres per year capacity out of an expected capacity of 20 billion cubic metres of the pipeline. Construction is expected to begin in 1996.

The Issuer's primary activity is subject to a regulatory regime established under the Gas Act 1986 which distinguishes between the tariff (mainly residential) and contract gas market. The regime is based around a formula for determining the price of gas supplied to tariff customers and the operation of schedules in the contract market. A formula is also applied to the charge for gas transportation. The Director General of Gas Supply (the "Director General") is empowered as the main regulator under the Gas Act 1986.

In May 1994, the Director General published a consultation document in which it was proposed that the requirement to publish price schedules should be lifted progressively from different parts of the contract market as and when the Director General was satisfied that self-sustaining competition had been established. On 1st September, 1994, the Director General announced that it would suspend the requirement for the Issuer to publish schedules in the firm contract market above 25,000 therms for an interim period from 1st October, 1994 to 31st March, 1995. On 9th March, 1995 the Director General extended this period for a further six months to 30th September, 1995. On 23rd June, 1995, the Director General announced that all price schedules will be suspended for a period of one year from 30th June, 1995, pending further study with a view to removing price schedules altogether.

In June 1994, the Director General published a consultation document concerning the price control formula for gas transportation and storage activities. The Director General proposed a formula to limit the maximum average price per therm in a given formula year (1st April to 31st March) to the corresponding price in the previous formula year multiplied by a percentage equal to the UK retail price index less five percentage points ("RPI-5"). The Director General proposed the starting level of pricing to be calculated by setting the maximum average price at 14.16p per therm as at October, 1994.

In August 1994, the Director General confirmed these proposals. This formula will apply to the services provided to all customers, including the Issuer's Public Gas Supply and Business Gas units. A further consultative document concerning the basis for the required separation of the Issuer's transportation and storage business from the remainder of the UK gas supply business was published by the Director General in October 1994. The proposals in the document address three broad areas: management separation, accounting separation and information flows and staff movements. The Director General's decision was published in February 1995, and regulatory permission to implement the separation proposals became effective on 1st March, 1995. In June 1995, the Director General published a consultation document to consider the pricing mechanism scheduled to be implemented in 1997 relating to the Issuer's transportation and storage business, and work has begun on discussion of this document.

The tariff sector is subject to a system of price control under a formula which currently has the broad effect of dividing the maximum price per therm into two principal components. The first component relates to the allowable cost of gas, such cost being subject to a cumulative annual reduction factor of 1 per cent., the second to RPI-4. An energy efficiency factor is also an element of the formula calculations. A further aspect of regulation of the tariff gas market is the achievement of key standards of service which have been agreed with the Director General.

In November 1994, the Issuer announced that after the first meter reading on or after 1st January, 1995 the standing charge for a lower tariff customer would increase by 0.29p per day, and the tariff price would increase by 0.043p per kilowatt-hour, increases of 2.87 and 2.91 per cent. respectively. However, at the same time the Issuer introduced a new tariff for those who pay their accounts by monthly variable direct debit from their bank accounts as the first stage in the restructuring of tariff prices to make them better reflect the cost of serving different groups of customers. The standing charge for such direct debit customers would remain unchanged, and the tariff price would be decreased by 0.044p per kilowatt-hour, a reduction of 2.98 per cent. The standing charge for customers who pre-pay was to be increased by 0.11p per day, an increase of 2.82 per cent. The tariff for pre-paying customers would increase by 0.061p per kilowatt-hour for the first 1143 kilowatt-hours and increase 0.045 per kilowatt-hour thereafter, increases of 2.89 and 2.87 per cent. respectively. In June 1995, the Issuer introduced an automatic price reduction of £2.00 on the quarterly bills of customers who pay their bill within 10 days of the date of the bill and who neither pre-pay nor pay by direct debit.

After a series of references to the Office of Fair Trading and the Monopoly and Mergers Commission, a Gas Bill (the "Bill") was published in March 1995. If enacted it will change the basis upon which the Issuer is authorised to transport, supply and ship gas within Great Britain. Although the Bill is summarised as described below, it is possible that changes will be made during its progress through Parliament. The Bill is expected to receive Royal Assent in July 1995. If the Bill is enacted in its current form, it will have the effects described below.

The Bill would amend the Gas Act 1986. Most importantly, it would introduce a system of licensing in place of the present authorisation and provide for the supply of gas in the market in Great Britain to be based entirely upon contract. The regime would allow competitors to apply for licences and to compete with the Issuer whose remaining monopoly in the lower tariff market would be phased out between April 1996 and the end of 1998.

Upon the enactment of the Bill, the Issuer expects it will create a system of licences awarded to transporters who operate the pipelines, shippers who arrange for gas to be transported through the pipelines and suppliers who take the gas from the shippers to supply to customers. The holder of a transporter's licence will not be able to hold either a shipper's licence or a supplier's licence and vice versa. There is no bar to a shipper's licence and a supplier's licence being held by the same person. Equally, there is no bar to having a separate and wholly owned subsidiary company holding a transporter's licence, with another subsidiary holding a shipper's licence and/or a supplier's licence.

Standard licence conditions would be set by the President of the Board of Trade (the "President") with a power to modify them given to the Director General subject to controls within the legislation. Special conditions may also be applied to individual licence holders. Where this power is exercised, it should not unduly disadvantage any licence holder.

Transitional arrangements have been provided whereby the existing rights and liabilities would be transferred from under the Gas Act 1986 to the licence holders under the new regime. The transitional arrangements also deal with the scheme for accomplishing the separation of the transportation and trading sides of the business. There are three principal tasks which the transitional arrangements address:

- the Issuer would be required to allocate property, rights and liabilities between itself and up to two "nominated associates" which would be wholly owned subsidiaries of the Issuer. The scheme would be prepared by the Issuer, subject to the approval of the President;
- the President would need to make a scheme dividing amongst the newly created licence holders the terms from the Issuer's authorisation under the Gas Act 1986, which would be preserved as special licence conditions; and
- the Issuer would need to make a scheme for approval by the President, whereby its tariff customers would automatically be deemed to have contracts for the supply of gas in place of the statutory arrangements which would be repealed if the new Bill comes into force. This would prevail for all former tariff customers at least until the market becomes fully competitive, except for those customers who are within the designated pilot areas.

The Bill, as drafted, preserves the various social obligations in respect of supplies to the elderly, the disabled and those with financial problems. It also preserves obligations with regard to public safety and response to emergencies, spreading these obligations across licence holders according to their activities.

Until the Bill receives Royal Assent and final decisions are made in the outstanding key financial and operational areas, the Issuer cannot assess the full impact of the Bill or the regulatory changes made by the Director General. However, the Issuer's gas sales volumes to the residential market are expected to decrease should the loss of the tariff monopoly contemplated in the Bill come into effect.

The Issuer has long-term gas purchase contracts containing take-or-pay provisions and pricing conditions which do not vary with fluctuations in market prices. Changes in market conditions affecting the volumes of gas sold and the price of the gas may expose the Issuer to financial risks arising from these contracts. It is not possible to determine the amount, if any, of loss that may arise from these contracts.

As the current tariff price formula allows the Issuer to pass on the bulk of its gas supply costs in the lower tariff market, the extent of this potential exposure is limited to contracts in the non-lower tariff market. With full competition outside the tariff market, and, under the Bill, the emergence of competition in the lower tariff market expected to be phased in from 1996 onwards reaching full competition by the end of 1998, and the expected construction of the interconnecting pipeline between the UK and Continental Europe, future market conditions are difficult to forecast.

HM Government has stated that with the introduction of competition in the tariff market some adjustment to the previous contractual arrangements appropriate to a monopoly supplier will be necessary and that it is confident the producers, the Issuer and other entities will be able to reach a satisfactory commercial conclusion to the benefit of all involved.

However, assurances cannot be given at present as to the outcome of discussions arising from this position.

## Directors

The Directors of the Issuer and their principal activities outside the Group are as follows:

R.V. Giordano KBE	Chairman	Non-executive Deputy Chairman, Grand Metropolitan plc, Non-executive Chairman, BOC Group plc, Non-executive Director, RTZ Corporation PLC, Georgia Pacific Corporation
C. H. Brown F Eng FICE	Chief Executive	Director, CBI Education Foundation
N. Blacker IPFA	Executive Director	
S. Brandon*	Executive Director, Commercial	
R. Herbert C Eng	Executive Director	
H. W. Dalton	Executive Director	Director of the Egyptian-British Chamber of Commerce
R. A. Gardner	Executive Director, Finance	
P. G. Rogerson	Executive Director	Non-executive Director, Leeds Permanent Building Society
D. H. Benson	Non-executive Director	Chairman, Kleinwort Charter Investment Trust PLC, Kleinwort Benson Trustees Limited, Non-executive Director, Kleinwort Benson Group plc, Kleinwort Benson (USA) Inc., The Rouse Company Incorporated, Marshall Cavendish Limited, Trustee of the Charities Official Investment Fund
R. H. Boissier CBE	Non-executive Director	Chairman, Pressac Holdings PLC, Kalon Group plc, Non-executive Director, Edward Lumley Holdings Limited, Severn Trent PLC, T&N plc, AMEC Mechanical & Electrical Services Limited
S. Kalms	Non-executive Director	Chairman, Dixons Group plc, King's Healthcare NHS Trust
K. A. V. Mackrell	Non-executive Director	Non-executive Director, Standard Chartered Bank plc, Bowater plc, Governor of the London School of Economics and Chairman of Enterprise LSE Ltd.
Sir Michael Perry CBE	Non-executive Director	Chairman, Unilever PLC, Non-executive Director, Bass plc
The Right Hon. The Lord Walker of Worcester MBE PC	Non-executive Director	Chairman, Cornhill Insurance PLC, European Smaller Companies plc, The Urban Regeneration Agency, Thornton & Co. Ltd., Non-executive Director, Smith New Court PLC, NM Rothschild & Sons (Wales) Limited, the Worcester Group plc, Dalgety PLC, Tate & Lyle PLC, CBC UK Limited, Allianz (UK) Limited, Robert Bosch Investment plc, Caparo Industries plc

The business address of the Directors is Rivermill House, 152 Grosvenor Road, London SW1V 3JL.

\*Mr. Brandon's appointment was announced on 23rd June, 1995. He will take up his appointment on 14th August, 1995.

### Extract from 1995 First Quarter Results

The following is an extract from the unaudited consolidated interim statement of the Issuer for the three months ended 31st March, 1995:

	Current cost £m	
	1995	1994 (as restated)*
Turnover — continuing operations	<b>3,149</b>	3,193
— discontinued operations	—	483
	<b>3,149</b>	3,676
Operating profit — continuing operations	<b>843</b>	842
— discontinued operations	—	109
	<b>843</b>	951
Profit on ordinary activities before taxation	<b>854</b>	906
Profit for the financial period	<b>505</b>	565

Current cost operating profit during the first quarter of this year was £843 million compared to £951 million for the first quarter of 1994. Current cost profit after tax was £505 million compared to £565 million last year. The Issuer's performance in this quarter was affected first, by continuing loss of market share in the industrial and commercial markets for gas in the UK, principally as a result of deliberate regulatory policy, and second, by warmer weather. Warmer weather in the first quarter compared to last year reduced operating profit by £28 million. Moreover, year on year comparisons were distorted by the sale of Consumers Gas last year which benefitted the operating profit for the first quarter of 1994 by £109 million. Operating profit from continuing operations was in line with the first quarter of 1994.

*\*Comparative figures have been restated to reflect changes in accounting policy incorporated into the 1994 Annual Report and Accounts.*

## Capitalisation of the Group

The following table sets out the unaudited consolidated capitalisation of the Group as at 31st March, 1995 after giving effect to the Bonds which are now being issued:

	£ (in millions)
Shareholders' equity (a)	
Ordinary shares of 25p each (5,500 million authorised, 4,360 million issued and fully paid).....	1,090
Reserves (current cost accounting) (b) .....	18,796
	<hr/>
British Gas shareholders' funds.....	19,886
Minority interests.....	5
	<hr/>
Total shareholders' equity.....	19,891
	<hr/> <hr/>
Indebtedness for borrowed money	
Short-term debt	
C\$ borrowings .....	9
U.S.\$ borrowings .....	18
Bank loans and overdrafts .....	45
Euro commercial paper .....	339
U.S.\$ commercial paper .....	119
Finance lease obligations.....	4
	<hr/>
Total short-term debt as at 31st March, 1995 .....	534
	<hr/> <hr/>
Long-term debt	
Notes and debentures (c).....	2,714
Finance lease obligations.....	24
The Bonds .....	200
	<hr/>
Total long-term debt.....	2,938
	<hr/> <hr/>
Total debt .....	3,472
	<hr/> <hr/>
Total capitalisation (d) (e) (f).....	23,363
	<hr/> <hr/>

### Notes:

- (a) The Issuer has authorised and issued the Special Share which is held by H.M. Government. The Special Share carries no right to participate in the capital (beyond the sum of £1) or earnings of the Issuer and carries no voting rights. Ordinary Shares entitle the holders thereof to one vote per Ordinary Share.
- (b) Reserves comprise Retained Earnings, the Current Cost Reserve and the Share Premium Account. Historical Cost Reserves at 31st March, 1995 were £7,154 million.
- (c) The Issuer has entered into an agreement to repurchase for value on 28th June, 1995, and thereafter cancel, approximately £169.4 million in principal amount of the Issuer's £200 million 7½ per cent. Bonds Due 2044. Long-term debt as shown in the above capitalisation table has not been adjusted by this amount.
- (d) The Group had cash and short-term money market investments of £1,276 million at 31st March, 1995.
- (e) On 29th June, 1995 British Gas International Finance BV will issue A\$200,000,000 4½ per cent. Notes due 1998, guaranteed by the Issuer.
- (f) Save for the issue of the Bonds, there has been no material change in the consolidated capitalisation of the Group since 31st March, 1995.

## UNITED KINGDOM TAXATION

**The following is a summary of the current United Kingdom taxation treatment of the Bonds. It is not exhaustive, and in particular does not deal with the position of certain classes of Bondholders, such as dealers in securities. Bondholders who are in any doubt as to their tax position should consult their professional advisers.**

1. The Bonds will constitute "quoted Eurobonds" within the terms of Section 124 of the Income and Corporation Taxes Act 1988, provided they remain in bearer form and continue to be quoted on a recognised stock exchange within the meaning of Section 841 of that Act. Accordingly, payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax where:

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and:
  - (i) it is proved, on a claim in that behalf made to the Inland Revenue, that the person beneficially entitled to the interest and to the relative Bond (or, if different, the person whose income the interest is deemed to be for United Kingdom tax purposes) is not resident in the United Kingdom for tax purposes; or
  - (ii) the Bonds and Coupons are held in a "recognised clearing system" (Cedel and Euroclear have each been designated as a "recognised clearing system" for this purpose).

In all other cases, interest will be paid under deduction of United Kingdom income tax at the basic rate (currently 25 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

2. A collecting agent in the United Kingdom obtaining payment of interest on behalf of a holder of a Bond or Coupon where either:

- (a) payment was not made by or entrusted to any person in the United Kingdom; or
- (b) the Bond is held in a "recognised clearing system" (for which see above)

may be required to withhold or deduct for or on account of United Kingdom income tax at the basic rate unless it is proved, on a claim in that behalf made in advance to the Inland Revenue, that the person who is the beneficial owner of the Bond and entitled to the interest is not resident in the United Kingdom and the interest is not deemed for United Kingdom tax purposes to be income of any other person.

3. Interest received on the Bonds after 5th April 1996 without deduction or withholding for or on account of United Kingdom tax will not be subject to United Kingdom tax in the hands of a Bondholder who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which the interest is received or to which the Bonds are attributable. There are certain exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

Interest received on the Bonds prior to 6th April, 1996 (if any) may be chargeable to United Kingdom taxation of income by direct assessment even if the interest is paid without withholding or deduction. However, based on Inland Revenue Extra-Statutory Concession B13, such interest will not be assessed to United Kingdom tax in the hands of Bondholders who are not resident in the United Kingdom for the whole of the relevant year of assessment, except where such persons:

- (a) are chargeable under Section 78 of the Taxes Management Act 1970 in the name of a trustee or other person mentioned in Section 72 of such Act or in the name of an agent or branch in the United Kingdom having the management or control of the interest; or
- (b) seek to claim relief in respect of taxed income from United Kingdom sources (in so far as the tax on the interest can be recovered by set off against the claim); or
- (c) are chargeable to corporation tax on the income of a United Kingdom branch or agency to which the interest is attributable; or
- (d) are chargeable to income tax on the profits of a trade carried on in the United Kingdom to which the interest is attributable.



4. Where interest has been paid under deduction of United Kingdom tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. Bondholders should note that the provisions relating to additional payments referred to in "Terms and Conditions of the Bonds—Taxation" above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest directly to United Kingdom tax on interest. However, exemption from or reduction of such United Kingdom tax liability might be available under any applicable double taxation treaty.
6. A transfer of a Bond by a holder resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade in the United Kingdom through a branch or agency to which the Bond is attributable may give rise to a charge to tax on income in respect of the interest on the Bond which has accrued since the preceding interest payment date.
7. The Bonds constitute qualifying corporate bonds with the result that on a disposal or redemption of the Bonds neither chargeable gains nor allowable losses will arise for the purposes of United Kingdom taxation of capital gains.

On 25th May, 1995, the Inland Revenue published a consultative document containing proposals to reform the taxation of returns from securities. The United Kingdom Government has announced that it will consult on the proposals during June 1995 and a decision whether or not to implement them will be made very shortly thereafter. Under the proposals, in the case of corporate investors within the scope of United Kingdom tax, all returns, including fluctuations in value, attributable to securities such as the Bonds, whether of a capital or income nature, will be taxed as income on an accruals or mark to market basis. Non-corporate investors within the scope of United Kingdom tax may be treated in a similar manner, although one possibility suggested in the consultative document is that such investors will be allowed to defer any tax charges attributable to fluctuations in the value of securities until disposal of the securities. Non-corporate investors with small portfolios may be outside the scope of the proposals. There may be transitional rules to deal with securities held at the time of the announcement. Bondholders should note that the final impact of these proposals, if any, will not be known until the end of the consultation process at the earliest.

## SUBSCRIPTION AND SALE

Midland Bank plc (the "Manager") has, pursuant to a Subscription Agreement dated 27th June, 1995, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Bonds at 101.269 per cent. of their principal amount, from which will be allowed a selling commission of 1.875 per cent. of such principal amount, plus accrued interest, if any. The Issuer has agreed to pay to the Manager a combined management and underwriting commission in respect of the Bonds of 0.625 per cent. of their principal amount. In addition, the Issuer has agreed to reimburse the Manager for certain of its expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Manager to terminate it in certain circumstances prior to payment being made to the Issuer.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"). Accordingly, the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or (ii) otherwise until the expiration of 40 days after the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Certification, in a form to be provided, that the Bonds are not beneficially owned by U.S. persons (other than by or through certain U.S. financial institutions) or by persons who have purchased such Bonds for resale to U.S. persons will be required prior to delivery of definitive Bonds or, if earlier, in connection with the first actual payment of interest. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

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

The Manager has represented and agreed that (1) prior to application for listing being made in accordance with Part IV of the Financial Services Act 1986 (the "FSA") on 14th June, 1995 it did not offer or sell any Bonds in the United Kingdom or elsewhere, by means of any document (except in circumstances which did not constitute an offer to the public within the meaning of the Companies Act 1985), (2) with respect to the period from (and including) 19th June, 1995, it has not offered or sold and will not offer or sell any of the Bonds to persons in the United Kingdom prior to admission of the Bonds to listing in accordance with Part IV of the FSA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA; (3) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom and (4) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Bonds, other than this Offering Circular or any other document which consists of, or any part of, listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom the document may otherwise be lawfully issued or passed on.

## GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Cedel and Euroclear. The ISIN number for the Bonds is XS0058343251 and the Common Code is 5834325.
2. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount, exclusive of accrued interest. It is expected that listing of the Bonds on the London Stock Exchange will be granted on 27th June, 1995, subject only to the issue of the Temporary Global Bond. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction.
3. The Issuer has obtained all necessary consents, approvals and authorisations in the United Kingdom in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution, dated 7th June, 1995, of a duly authorised and constituted committee of the Board of Directors of the Issuer.
4. Save as disclosed in this Offering Circular on pages 9 to 15, there has been no significant change in the financial or trading position of the Group taken as a whole since 31st March, 1995 and no material adverse change in the financial position or prospects of the Issuer or of the Group taken as a whole since 31st December, 1994.
5. No member of the Group is involved in any litigation or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of the Group nor is the Issuer aware of any such proceedings pending or threatened.
6. The Bonds and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code".
7. Copies of the latest annual report and accounts of the Issuer may be obtained, and copies of the Principal Trust Deed, the Supplemental Trust Deed constituting the Bonds and the Paying Agency Agreement will be available for inspection, at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Bonds is outstanding.
8. Price Waterhouse, Chartered Accountants, have audited the accounts of the Group without qualification for the three years ended 31st December, 1994.
9. Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:
  - (i) the Memorandum and Articles of Association of the Issuer;
  - (ii) the audited consolidated annual accounts of the Issuer for the three years ended 31st December, 1994 and the unaudited consolidated interim statement of the Issuer for the three months ended 31st March, 1995;
  - (iii) the Subscription Agreement referred to above;
  - (iv) the Principal Trust Deed and drafts (subject to modification) of the Supplemental Trust Deed to constitute the Bonds, which includes the form of the Temporary Global Bond and the form of the definitive Bonds, and of the Paying Agency Agreement.

**REGISTERED OFFICE OF THE ISSUER**

Rivermill House  
152 Grosvenor Road  
London SW1V 3JL

**AUDITORS OF THE ISSUER**

**Price Waterhouse**  
Southwark Towers  
32 London Bridge Street  
London SE1 9SY

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**  
Princes House  
95 Gresham Street  
London EC2V 7LY

**PRINCIPAL PAYING AGENT**

**Morgan Guaranty Trust Company of New York, London Office**  
60 Victoria Embankment  
London EC4Y 0JP

**OTHER PAYING AGENTS**

**Banque Paribas Luxembourg**  
10A Boulevard Royal  
L-2093 Luxembourg

**Morgan Guaranty Trust Company of New York, Brussels Office**  
35 Avenue des Arts  
B-1040 Brussels

**LEGAL ADVISERS**

*To the Managers and the Trustee*

**Allen & Overy**  
One New Change  
London EC4M 9QQ

*To the Issuer*

**Linklaters & Paines**  
Barrington House  
59-67 Gresham Street  
London EC2V 7JA

**LISTING AGENT**

**Midland Bank plc**  
Thames Exchange  
10 Queen Street Place  
London EC4R 1BQ