
DALI CAPITAL PLC

(Incorporated with limited liability in the Republic of Ireland)

£150,000,000 Guaranteed Asset Backed Floating Rate Notes due 2036 (the “Notes”)

Series No: 17

Issue Price: 100 per cent.

Unconditionally and irrevocably guaranteed in relation to Scheduled Payments of principal and interest on the Notes by Financial Security Assurance (U.K.) Limited



Application has been made to the Irish Financial Services Regulatory Authority, as competent authority (the “**Competent Authority**”) under Directive 2003/71/EC (the “**Prospectus Directive**”), for this prospectus to be approved. Application has been made to the Irish Stock Exchange (the “**Irish Stock Exchange**”) for the Notes to be admitted to the Official List and trading on its regulated market.

This document (including the information incorporated by reference herein) constitutes a prospectus for the purposes of Article 5.1 of the Prospectus Directive.

The Notes will be unconditionally and irrevocably guaranteed in relation to the Scheduled Payments (as defined in the Notes Financial Guarantee) of principal and interest pursuant to a financial guarantee (the “**Notes Financial Guarantee**”) to be issued by Financial Security Assurance (U.K.) Limited (“**FSA**”) pursuant to the Notes Financial Guarantee and Indemnity Agreement (as defined below) as set out in the section of this Prospectus entitled “Form of the Notes Financial Guarantee” below.

Dali Capital PLC (the “**Issuer**”) will on the Issue Date (as defined below) acquire £150,000,000 in aggregate nominal amount of the £150,000,000 2.033 per cent. Index-Linked Guaranteed Bonds due 2036 (ISIN: XS0230235474) issued by Northumbrian Water Finance Plc and guaranteed by Northumbrian Water Limited, which shall constitute the Securities and part of the Mortgaged Property initially (each as defined below).

Interest on the Notes will be payable semi-annually in arrear in Sterling on 15 January and 15 July in each year, commencing 15 January 2006 and ending on the Interest Payment Date (as defined below) falling on or nearest to 15 July 2036, subject to deferral as described herein.

The Notes will mature on 15 July 2036, as may be adjusted and/or deferred in accordance with Condition 7(a) (*Final Redemption*), unless previously redeemed pursuant to Condition 7(c) (*Mandatory Redemption*) (including redemption following the exercise of the FSA Redemption Option), Condition 7(d) (*Taxation and Redemption following Swap Termination*), Condition 7(f) (*Noteholders’ Option*) or Condition 10 (*Issuer Events of Default*).

The Notes will be obligations of the Issuer only and will not be guaranteed by, or be the responsibility of, the Swap Counterparty or any other person (other than FSA in respect of Scheduled Payments of principal and interest on the Notes). Claims of the Noteholders, FSA and the Swap Counterparty against the Issuer will be limited in recourse to the Mortgaged Property, except that Noteholders will also receive the benefit of the Notes Financial Guarantee (see “Risk Factors — Risks related to the Notes” on page 7).

The Notes are expected to be assigned on issue, a AAA rating by Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”) and a Aaa rating by Moody’s Investors Service, Inc. (“**Moody’s**”). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by Standard & Poor’s or Moody’s. A suspension, reduction or withdrawal of the ratings assigned to the Notes may adversely affect the market price of the Notes.

Prospective investors should be aware of the risks involved in investing in the Notes (see “Risk Factors” on pages 6-15).

Dealer
BARCLAYS CAPITAL

Except to the extent specified below the Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information contained herein relating to the issuer (the “**Original Securities Issuer**”) of the Original Securities (as defined below) has been accurately reproduced from information published by the Original Securities Issuer. So far as the Issuer is aware and/or able to ascertain from information published by the Original Securities Issuer no facts have been omitted which could render the reproduced information misleading. The Issuer has not been responsible for, nor has it undertaken, any investigation or verification of statements, including statements as to law, contained in such information.

FSA accepts responsibility for the information contained under “Description of Financial Security Assurance (U.K.) Limited”, under paragraphs (3), (5) and (6) of “General Information”, under the financial statements thereof referred to in paragraph (9)(j) of “General Information” and under the financial information contained in the Appendix to this Prospectus (the “**FSA Information**”). To the best of the knowledge and belief of FSA (which has taken all reasonable care to ensure that such is the case), the FSA Information is in accordance with the facts and does not omit anything likely to affect the import of the FSA Information. The Issuer has not been responsible for, nor has it undertaken, any investigation or verification of statements, including statements as to foreign law, contained in such information. FSA accepts no responsibility for any other information contained in this Prospectus and has not separately verified any such other information. No representation, warranty or undertaking is made, and no responsibility is accepted by, FSA as to the accuracy or completeness of any information contained in this Prospectus other than the FSA Information or any other information supplied in relation to the Notes or their distribution.

The Swap Counterparty accepts responsibility for the information contained under “Description of the Swap Counterparty” (the “**Swap Counterparty Information**”). To the best of the knowledge and belief of the Swap Counterparty (which has taken all reasonable care to ensure that such is the case), the Swap Counterparty Information is in accordance with the facts and does not omit anything likely to affect the import of the Swap Counterparty Information. The Issuer has not been responsible for, nor has it undertaken, any investigation or verification of statements, including statements as to foreign law, contained in such information. The Swap Counterparty accepts no responsibility for any other information contained in this Prospectus and has not separately verified any such other information. No representation, warranty or undertaking is made, and no responsibility is accepted by, the Swap Counterparty as to the accuracy or completeness of any information contained in this Prospectus other than the Swap Counterparty Information or any other information supplied in relation to the Notes or their distribution.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Dealer. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof.

The delivery of this Prospectus does not at any time imply that the information contained herein concerning the Issuer, the Swap Counterparty or FSA is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document contained the same. The Issuer does not intend to provide post issuance transaction information regarding the Notes or the Securities.

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, FSA and the Dealer to inform themselves about and to observe any such restriction. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a description of certain restrictions on offers and sales of Notes and on distribution of this Prospectus, see “Subscription and Sale” contained in the Base Prospectus (as defined below).

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Dealers to subscribe for, or purchase any Notes.

The Dealer has not separately verified the information contained in this Prospectus.

Purchasers of Notes should conduct such independent investigation and analysis regarding the Issuer, the Securities Issuer, FSA, the security arrangements and the Notes as they deem appropriate to evaluate the merits and risks of an investment in the Notes. Purchasers of Notes should have sufficient knowledge and experience in financial and business matters, and access to, and knowledge of, appropriate analytical resources, to evaluate the information contained in this Prospectus (if any) and the merits and risks of investing in the Notes in the context of their financial position and circumstances. The risk factors identified in this Prospectus are provided as general information only and the Dealer disclaims any responsibility to advise purchasers of Notes of the risks and investment considerations associated therewith as they may exist at the date hereof or as they may from time to time alter.

The Issuer is not regulated by the Central Bank of Ireland. Neither the Notes nor the Transactions will have the status of a bank deposit under Irish law and neither are within the scope of the Deposit Protection Scheme operated by the Central Bank of Ireland.

In connection with the issue of the Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager(s)**”) (or persons acting on behalf of any Stabilising Manager(s)) herein may over-allot Notes (provided that, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer for the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

This Prospectus is to be read in conjunction with all documents which are incorporated by reference (see “Documents Incorporated by Reference” below).

In this Prospectus, unless otherwise specified or the context otherwise requires, references to “**Euro**” and “**€**” are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union and references to “**Sterling**” and “**£**” are to the lawful currency of the United Kingdom.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents which have been previously published or are published simultaneously with the Prospectus and that have been approved by the Competent Authority or filed with it and shall be deemed to be incorporated in, and form part of, this Prospectus:

- (1) the base prospectus of the Issuer dated 4 August 2005 relating to the Issuer's Euro 5,000,000,000 Secured Transaction Programme (the "**Base Prospectus**"); and
- (2) the audited annual financial statements ended 30 March 2003 and 2004 (including any auditors report thereon), of the Issuer;

save that any statement contained in any of the documents incorporated by reference in, and forming part of, this Prospectus shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained 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 part of this Prospectus. This Prospectus must be read in conjunction with the Base Prospectus and full information on the Issuer and the Notes is only available on the basis of the combination of the provisions set out within this document and the Base Prospectus.

The Issuer will, at the specified offices of the Issuer and AIB International Financial Services Limited, free of charge, upon the oral or written request therefor, make available a copy of this Prospectus (and any documents incorporated by reference in this Prospectus). Written or oral requests for such documents should be directed to the specified office of AIB International Financial Services Limited.

SUPPLEMENTS TO THE PROSPECTUS

If at any time any Issuer shall be required to prepare a supplemental prospectus pursuant to Articles 23 and 51 of S.I. No. 324, Prospectus (Directive 2003/71/EC) Regulations 2005, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus which shall constitute a supplemental prospectus as required by the Competent Authority and 5.1 No. 324, Prospectus (Directive 2003/71/EC) Regulations 2005.

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RISK FACTORS

This Prospectus does not describe all of the risks of an investment in the Notes. The Issuer and the Dealer disclaim any responsibility to advise prospective investors of such risks as they exist at the date of this Prospectus or as they change from time to time. Prospective investors should consult their own financial and legal advisers as to the risks entailed by an investment in any Notes and the suitability of investing in such Notes in the light of their particular circumstances. Prospective investors should carefully consider, among other factors, all the information set forth in this Prospectus and in particular, the matters described below.

Risks related to the Issuer

The Issuer is a special purpose vehicle

The Issuer's sole business is the raising of money by issuing notes and entering into other Transactions for the purposes of purchasing assets and entering into related derivatives and other contracts. The Issuer has covenanted not, as long as any of the Transactions remain outstanding, without the consent of the Trustee and any Other Creditors and provided that it will not result in any rating assigned to the Notes being adversely affected, as confirmed in writing by the relevant rating agency, to have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or issue any shares (other than such shares as were in issue on the date of its incorporation). As such, the Issuer has, and will have, no assets other than its issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of Notes or entry into other obligations from time to time and any Mortgaged Property and any other assets on which Notes or other obligations are secured. There is no day to day management of the business of the Issuer.

Regulation of the Issuer by any regulatory authority

The Issuer is not required to be licensed, registered or authorised under any current securities, commodities or banking laws of its jurisdiction of incorporation and will operate without supervision by any authority in any jurisdiction. There is no assurance, however, that regulatory authorities in one or more jurisdictions would not take a contrary view regarding the applicability of any such laws to the Issuer. The taking of a contrary view by such regulatory authority could have an adverse impact on the Issuer or the holders of the Notes.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of any deposit protection scheme.

Preferred creditors under Irish law

Under Irish law, upon an insolvency of an Irish company such as the Issuer, when applying the proceeds of assets subject to fixed security which may have been realised in the course of a liquidation or receivership, the claims of a limited category of preferential creditors will take priority over the claims of creditors holding the relevant fixed security. These preferred claims include the remuneration, costs and expenses properly incurred by any examiner of the company (which may include any borrowings made by an examiner to fund the company's requirements for the duration of his appointment) which have been approved by the Irish courts (see "Examinership" below).

In relation to the disposal of assets of any Irish tax resident company which are subject to security, a person entitled to the benefit of the security may be liable for tax in relation to any capital gains made by the company on a disposal of those assets on exercise of the security.

Examinership

Examinership is a court procedure available under the Irish Companies (Amendment) Act 1990, as amended to facilitate the survival of Irish companies in financial difficulties.

The Issuer, the directors of the Issuer, a contingent, prospective or actual creditor of the Issuer, or shareholders of the Issuer holding, at the date of presentation of the petition, not less than one-tenth of the voting share capital of the Issuer are each entitled to petition the court for the appointment of an examiner. The examiner, once appointed, has the power to set aside contracts and arrangements entered into by the company after his appointment and, in certain circumstances, can avoid a negative pledge given by the company prior to his appointment. Furthermore, he may sell assets the subject of a fixed charge. However, if such power is exercised he must account to the holders of the fixed charge for the amount realised and discharge the amount due to them out of the proceeds of sale.

During the period of protection, the examiner will compile proposals for a compromise or scheme of arrangement to assist the survival of the company or the whole or any part of its undertaking as a going concern. A scheme of arrangement may be approved by the Irish High Court when at least one class of creditors has voted in favour of the proposals and the Irish High Court is satisfied that such proposals are fair and equitable in relation to any class of members or creditors who have not accepted the proposals and whose interests would be impaired by implementation of the scheme of arrangement.

In considering proposals by the examiner, it is likely that secured and unsecured creditors would form separate classes of creditors. In the case of the Issuer, if the Trustee represented the majority in number and value of claims within the secured creditor class (which would be likely given the restrictions agreed to by the Issuer in the Conditions), the Trustee would be in a position to reject any proposal not in favour of the Noteholders. The Trustee would also be entitled to argue at the Irish High Court hearing at which the proposed scheme of arrangement is considered that the proposals are unfair and inequitable in relation to the Noteholders, especially if such proposals included a writing down of the value of amounts due by the Issuer to the Noteholders. The primary risks to the holders of Notes if an examiner were to be appointed to the Issuer are as follows:

- (i) the potential for a scheme of arrangement to be approved involving the writing down of the debt owed by the Issuer to the Noteholders as secured by the Trust Deed;
- (ii) the potential for the examiner to seek to set aside any negative pledge in the Notes prohibiting the creation of security or the incurring of borrowings by the Issuer to enable the examiner to borrow to fund the Issuer during the protection period; and
- (iii) in the event that a scheme of arrangement is not approved and the Issuer subsequently goes into liquidation, the examiner's remuneration and expenses (including certain borrowings incurred by the examiner on behalf of the Issuer and approved by the Irish High Court) will take priority over the monies and liabilities which from time to time are or may become due, owing or payable by the Issuer to the Noteholders.

Risks related to the Notes

Liability under the Notes

The Notes will be solely the obligations of the Issuer and will not be obligations or responsibilities of, or guaranteed by, any other entity (other than FSA in relation to amounts in respect of Scheduled Payments under the Notes Financial Guarantee). In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, the Trustee, the Swap Counterparty or FSA (other than in relation to amounts in respect of Scheduled Payments on the Notes under the Notes Financial Guarantee). Furthermore, no such person other than the Issuer will accept any liability whatsoever to Noteholders in

respect of any failure by the Issuer to pay any amount due under the Notes (other than FSA in relation to amounts in respect of Scheduled Payments on the Notes under the Notes Financial Guarantee).

Limited recourse obligations

The Notes are direct, secured, limited recourse obligations of the Issuer payable solely out of the assets charged by the Issuer in favour of the Trustee on behalf of the Noteholders and other secured parties. The Issuer will have no other assets or sources of revenue available for payment of any of its obligations under the Notes and claims against the Issuer by the Trustee, the Noteholders and the Swap Counterparty will be limited. The Noteholders do however have the benefit of the Note Financial Guarantee issued by FSA – See “Risks related to the counterparties” below. The Noteholders will have no right to proceed directly against the Issuer or take title to, or possession of, the charged assets unless the Trustee, having become bound to do so, fails to take relevant action within a reasonable time. No assurance can be made that the proceeds available for and allocated to the repayment of the Notes at any particular time will be sufficient to cover all amounts that would otherwise be due and payable in respect of the Notes. If the proceeds of the realisation of the Security received by the Trustee for the benefit of the Noteholders prove insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency. Any deficiency will be borne by the Trustee, the Agents, the Swap Counterparty, FSA, the Noteholders, the Couponholders and the Counterparty in accordance with the order of priority specified in Condition 4 and following distribution of the proceeds of such realisation, the Issuer will have no further obligation to pay any amounts in respect of any such deficiency.

Further, none of the Trustee, the Agents, the Swap Counterparty, FSA, the Counterparty, the Noteholders and the Couponholders will be entitled at any time to petition or take any other step for the winding-up of or the appointment of an examiner to, the Issuer provided that the Trustee may prove or lodge a claim in the liquidation of the Issuer initiated by another party and provided further that the Trustee may take proceedings to obtain a declaration or similar judgment or order as to the obligations and liabilities of the Issuer. No person other than the Issuer will be obliged to make payments on the Notes.

Priority of Claims

During the term of the transaction and on an enforcement of the security granted by the Issuer in favour of the Trustee, the rights of the Noteholders to be paid amounts due under the Notes will be subordinated to, *inter alia*, claims of the Trustee, the Agents, the Swap Counterparty (other than where the Swap is terminated as a consequence of a Swap Counterparty Event of Default) and FSA (in respect of unpaid fees and (only in the circumstance where the Notes are redeemed pursuant to Condition 7(c)(ii)(A) (*Mandatory Redemption Following an Original Securities Issuer Call*) or at the direction of an Extraordinary Resolution where FSA has issued an Original Securities Financial Guarantee or an Eligible Securities Financial Guarantee in accordance with Condition 7(d) (*Taxation and Redemption following Swap Termination*) or pursuant to Condition 7(f) (*Noteholders' Option*)) the FSA Make Whole Amount (as defined below)).

No gross-up

In the event that any withholding or deduction for tax is imposed (i) on payments of interest on the Notes, (ii) in respect of any payments under the Swap or (iii) in respect of the amounts receivable by the Issuer in respect of Eligible Securities (where the relevant issuer of such Securities would not be obliged to pay additional amounts to gross up such amounts), the Issuer will only be required to make payments to Noteholders net of such withholding or deduction and FSA would have no obligation under the Notes Financial Guarantee or the Swap Financial Guarantee to make up such shortfall. In such circumstances, the Issuer shall use all reasonable endeavours to (a) arrange the substitution of a company incorporated in another jurisdiction approved beforehand in writing by the Trustee and the Substitution Instructing Creditor (provided that such substitution will not at the time of substitution result in any rating assigned to the Notes being adversely affected, as confirmed in writing by Moody's and Standard & Poor's) as the

principal obligor, (b) change (to the satisfaction of the Trustee and the Substitution Instructing Creditor and provided that such change will not at the time of such change result in any rating assigned to the Notes being adversely affected, as confirmed in writing by Moody's and Standard & Poor's) its residence for taxation purposes to another jurisdiction approved beforehand in writing by the Trustee and the Other Creditors, (c) consult with the Noteholders with a view to obtaining a direction by way of Extraordinary Resolution, with the approval of the Swap Counterparty and FSA (such approval not to be unreasonably withheld or delayed), to restructure the Notes to avoid the requirement to make such withholding or deduction or (d) consult with the Noteholders with a view to obtaining a direction by way of Extraordinary Resolution with the approval of the Swap Counterparty and FSA (such approval not to be unreasonably withheld or delayed), to redeem the Notes (in whole but not in part) on an agreed date by way of Cash Settlement or Physical Settlement as directed by such Extraordinary Resolution as more particularly described in Condition 7(d) (*Taxation and Redemption Following Swap Termination*).

For so long as the Issuer is unable to achieve any of the alternatives described in (a) to (d) above, the Issuer shall deduct such taxes from amounts payable and Noteholders will not be entitled to receive grossed-up amounts to compensate for such withholding or deduction for tax. No event of default shall occur as a result of any such withholding or deduction under the Notes or the Swap or the Securities. The Issuer is not obliged to redeem the Notes in the event of any such withholding or deduction for tax being imposed on payments of interest thereunder unless directed to do so by way of an Extraordinary Resolution in accordance with (d) above. Subject to the above, in the event that payments due from the Issuer to the Swap Counterparty under the Swap are subject to withholding or deduction on account of any tax or in the event that any payments by the Issuer to the Swap Counterparty under the Swap are reduced as a consequence of the amounts receivable by the Issuer under the Original Securities or any Eligible Securities being subject to any such withholding or deduction (where the relevant issuer of such Securities would not be obliged to pay additional amounts to gross up such amounts), then the corresponding amounts paid by the Swap Counterparty to the Issuer shall be reduced by the same amount (on a pound for pound basis) excluding any reduction as a consequence of amounts receivable by the Issuer under the Original Securities being subject to a withholding or deduction where there is no obligation on the Original Securities Issuer to Gross Up (as defined in Condition 4(h)(ii)(A) (*Original Securities Taxation*)). In such event the amount payable by the Issuer under the Notes would also be reduced by such amount (again, on a pound for pound basis) excluding any reduction as a consequence of amounts receivable by the Issuer under the Original Securities being subject to a withholding or deduction where there is no obligation on the Original Securities Issuer to Gross Up (as defined in Condition 4(h)(ii)(A) (*Original Securities Taxation*)).

Subject to the above, in the event that the amount to be deducted from any payments to be made by the Swap Counterparty to the Issuer exceeds the payment to be made by the Swap Counterparty, then the Swap Counterparty will not be obliged to make any payment on the relevant payment dates under the Swap to the Issuer and any shortfall, together with interest at the outstanding London interbank offered rate, will be applied in reducing the amounts payable by the Swap Counterparty to the Issuer on the next succeeding Swap Counterparty payment date under the Swap (on a pound for pound basis) and, to the extent that such shortfall is not extinguished by such reduction, in reducing subsequent payments to be made by the Swap Counterparty to the Issuer until such shortfall is extinguished. Such reductions may significantly reduce the amounts of interest and, if any such amounts remain outstanding upon any redemption of the Notes, principal payable to Noteholders.

Modification, waivers and substitution

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Provided that an FSA Event of Default has not occurred and is not continuing (unless it has been waived or cured to the satisfaction of the Trustee), FSA shall have the

right to give requests or directions to the Trustee and to vote at meetings of the Noteholders (except in respect of certain entrenched rights or reserved matters specified within the conditions of the Notes), as more particularly described in “Entitlement of FSA” below. In so doing, FSA shall not be required to attend such meetings, but may instead deliver written instructions. In such circumstances, FSA would constitute the defined majority to bind all Noteholders.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, any of the provisions of Notes that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error or (ii) the substitution of another company as principal debtor under any Notes in place of the Issuer.

Entitlement of FSA

The conditions of the Notes also provide that irrespective of whether an FSA Event of Default has occurred, FSA shall be required to consent to a proposed modification or amendment of certain entrenched rights relating to FSA.

In addition, unless an FSA Event of Default has occurred and is continuing (unless it has been waived or cured to the satisfaction of the Trustee), FSA has the right (except in relation to certain matters as set out in Condition 12(e) (*Entitlement of FSA*)) to give requests or directions to the Trustee and to vote at meetings of the Noteholders as if it were the holder of 100 per cent of the then aggregate outstanding nominal amount of the Notes to the exclusion of any right which the Noteholders would otherwise have to vote or to direct the Trustee.

FSA Optional Redemption

If FSA exercises the FSA Redemption Option the Issuer shall, as soon as reasonably practicable following notice of such exercise, redeem the Notes (in whole or in part) in accordance with the Conditions. This feature may limit their market value. During the period when FSA may elect to exercise such option, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to the commencement of any redemption period. A Noteholder may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Prospective investors should consider reinvestment risk in light of other investments available at that time.

Risks related to the assets

No investigations

No investigations, searches or other enquiries have been made by or on behalf of the Issuer or the Trustee in respect of the Securities. No representations or warranties, express or implied, have been given by the Issuer, the Dealer, the Trustee or any other person on their behalf in respect of the Securities.

Securities

The terms of the Original Securities are set out in the Original Securities Prospectus and investors are advised to read and understand such terms prior to the purchase of Notes. The Original Securities Prospectus will be available for inspection as described in the “General Information” section below. Investors should be clear, however, that an investment in the Notes is not the same as an investment in the Original Securities.

In the event that the Original Securities are redeemed as a result of (a) an Original Securities Issuer Call, in circumstances that the redemption proceeds thereof are insufficient to pay all Secured Parties pursuant to items (i) to (vii) (both inclusive) of Condition 4(b)(I) (*Pre-enforcement Order of Priority*) and neither the Noteholders nor FSA elect that the Notes be redeemed, (b) an Original Securities Bondholder

Put and FSA does not elect that the Notes be redeemed, or (c) an Original Securities Default and FSA does not elect that the Notes be redeemed, then the redemption proceeds will be invested in Eligible Securities. The Notes Financial Guarantee and the Swap Financial Guarantee shall continue to be in effect and a Swap Adjustment may be effected in respect of the Swap.

Noteholders may be exposed to the market price of the Securities if an event of default occurs with respect to FSA. In such circumstances the Issuer may have to fund its payments by the sale of Securities at a market value and the nominal amount of the Securities will be reduced by the principal amount of the Securities sold. The market price of the Securities will generally fluctuate with, among other things, the liquidity and volatility of the financial markets, general economic conditions, domestic and international political events, developments or trends in a particular industry and the financial condition of the issuer of the Securities. The Dealer may have acquired or during the terms of the Notes may acquire, confidential information with respect to any Securities and it shall not be under any duty to disclose such confidential information to any Noteholder.

Early Redemption of Securities

The Notes may be redeemed prior to the Maturity Date upon the occurrence of a mandatory redemption event pursuant to Condition 7(c) (*Mandatory Redemption*) (including circumstances when the FSA Redemption Option is exercised by FSA), pursuant to Condition 7(d) (*Taxation and Redemption following Swap Termination*), pursuant to Condition 7(f) (*Noteholders' Option*) and pursuant to Condition 10 (*Issuer Events of Default*). The mandatory redemption events contained in Condition 7(c) (*Mandatory Redemption*) include (a) a failure by FSA to make a timely and full payment of amounts demanded under the Notes Financial Guarantee and/or the Swap Financial Guarantee, (b) following an FSA Bankruptcy Event, either a payment default in respect of principal or interest under the Notes or an event of default in accordance with the terms and conditions of the Securities, from time to time, (c) an early redemption of the Original Securities as a result of the exercise of the Original Securities Issuer Call in circumstances where the redemption proceeds are sufficient to pay all Secured Parties pursuant to items (i) to (vii) (both inclusive) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*), (d) an early redemption of the Original Securities as a result of the Original Securities Issuer becoming obliged to pay additional amounts on account of tax as described in the conditions thereof in the circumstances where the Original Securities (or the guarantee in respect thereof) are not restructured, the Original Securities Issuer is not replaced by another entity as principal debtor thereunder or new securities are not issued to the Issuer as envisaged by Condition 4(h)(ii) (*Original Securities Taxation*) and (e) an early redemption of the Original Securities as a result of an index event described in the conditions thereof in the circumstances where the Original Securities are not amended or new securities are not issued to the Issuer as envisaged by Condition 4(h)(iii) (*Original Securities Index Event*). In addition, the FSA Redemption Option set out in Condition 7(c)(iii) (*FSA Redemption Option*) provides that FSA may require redemption of the Notes in certain circumstances provided that a sufficient amount will be available to pay the required Redemption Sum.

In the event of an early redemption of the Notes, the Swap will be terminated (if not already terminated) and the Secured Parties will be paid in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*).

Physical Delivery

In the event that the Notes are to be redeemed by way of Physical Settlement pursuant to Condition 7(d) (*Taxation and Redemption Following Swap Termination*) and as directed by an Extraordinary Resolution of the Noteholders, delivery of any Securities to which a Noteholder is entitled shall be made in accordance with the instructions of the relevant Noteholder set out in a delivery notice specifying an account in a clearing system for delivery of Securities. If, due to an event beyond the control of the Issuer and the relevant Noteholder the specified clearing system cannot clear transfers of the Securities comprising the Payment Deliverable Amount or Sale Deliverable Amount (as defined below) of such

Noteholder (a “**Settlement Disruption Event**”), as the case may be, then settlement shall be on the first succeeding day on which settlement can take place through the clearing system unless the Settlement Disruption Event prevents settlement on each day that the clearing system is (or, but for the Settlement Disruption Event, would have been) open for business during the period ending 30 calendar days after the original date on which, but for the Settlement Disruption Event, settlement would have occurred. If settlement does not occur during such 30 calendar day period, the Issuer shall use all reasonable efforts to deliver the Securities comprising the Payment Deliverable Amount or Sale Deliverable Amount of each Noteholder, as the case may be, promptly thereafter to a nominee selected by the Trustee.

Risks related to the counterparties

Reliance on creditworthiness of other parties

The ability of the Issuer to meet its obligations under the Notes will depend on the receipt by it of payments due from the Swap Counterparty under the Swap. If an event of default occurs with respect to FSA, the Issuer may be exposed not only to the occurrence of an event of default in relation to the Securities and the volatility in the market value of the Securities, but also to the ability of the Swap Counterparty to perform its obligations under the Swap.

The receipt by the Issuer of payments under the Swap is also dependent on the timely payment by the Issuer of its obligations under the Swap or the timely payment by FSA of amounts due under the Swap Financial Guarantee. The ability of the Issuer to make timely payment of its obligations under the Swap depends on receipt by it of the scheduled payments under the Securities. Consequently, the Issuer is also exposed to the ability of the Securities Issuer to perform its payment obligations.

The Securities will be held in an account of, and in the name of, the Custodian. Where the Collateral consists of assets other than Securities, it may be held in the name of or under the control of the Custodian or in such other manner as is approved by the Trustee. The Custodian may be responsible under the Agency Agreement for receiving payments on the Securities and remitting them to the relevant Other Creditors or the Issuing and Paying Agent, as the case may be.

Prospective investors in the Notes should note that the ultimate recourse available to the Trustee if a payment is due on the Notes from the Issuer but not paid is, save as disclosed herein, to FSA under the Notes Financial Guarantee. FSA is not obliged to pay under the Notes Financial Guarantee for any other reason (unless it exercises the FSA Redemption Option pursuant to Condition 7(c)(iii) (*FSA Optional Redemption*), which may be in whole or in part, in the circumstances where the Issuer has sufficient funds (as determined by the Calculation Agent) to make payments of the Redemption Sum). In the event that the payment obligations of the Issuer in respect of the Notes are reduced on account of a withholding or deduction on any payments in respect of the Securities, or on account of a deduction or withholding for tax in respect of payments under the Swap, then FSA shall only be obliged to pay under the Notes Financial Guarantee (if called upon to do so) to the extent of such reduced payment obligations of the Issuer. In the event that FSA does not make full payment in circumstances where it has received a valid claim from the Trustee and has become obliged to pay under the Notes Financial Guarantee, the Trustee may (and, if so directed by the Swap Counterparty and indemnified to its satisfaction, shall) commence legal proceedings against FSA.

Ratings of Notes affected by FSA

The ratings of the Notes are based primarily on the Notes Financial Guarantee issued by FSA with respect to the Notes. Pursuant to the Notes Financial Guarantee, FSA guarantees Scheduled Payments of principal and interest under the Notes. The payment of the Scheduled Payments will therefore depend upon FSA performing its obligations under the Notes Financial Guarantee. The likelihood of payment of the Scheduled Payments will depend upon the creditworthiness of FSA. Consequently, investors are relying not only on the creditworthiness of the Issuer but also on the creditworthiness of FSA to perform

its obligations under the Notes Financial Guarantee. The insolvency of FSA or a default by it under the Notes Financial Guarantee would adversely affect the likelihood of investors receiving scheduled payments of principal and interest and could result in a withdrawal or downgrade of the ratings of the Notes.

Bankruptcy of FSA

The Notes will not be automatically redeemed in the event of an FSA Bankruptcy Event, and will only be redeemed thereafter upon the earlier to occur of (A) a payment default in respect of principal or interest under the Notes or (B) an Event of Default (as defined in the Original Securities Prospectus) with respect to the Original Securities (or an equivalent event, howsoever described, occurs with respect to any Eligible Securities), or such other event resulting in redemption of the Notes pursuant to Condition 7 (*Redemption, Purchase and Options*). Prospective investors in the Notes should be aware that subsequent to an FSA Bankruptcy Event, it is likely that the ratings assigned to the Notes will adjust accordingly.

Reliance by FSA on Financial Security Assurance Inc.

The ratings of FSA are based primarily on the ratings of and the capital support and reinsurance provided by Financial Security Assurance Inc. (the “**FSA Parent**”) to FSA pursuant to certain intercompany support agreements (the “**Support Agreements**”). Any downgrade of the ratings of the FSA Parent would very likely result in a downgrade of the ratings of FSA, which could, in turn, have a material adverse effect on FSA’s ability to perform its obligations under the Notes Financial Guarantee.

The Support Agreements are not, and should not be regarded as, guarantees by the FSA Parent of the payment of any indebtedness, liability or obligations of the Issuer, of the Notes or the Notes Financial Guarantee, and do not confer any rights on third parties. The Noteholders will have no recourse against the FSA Parent or any other affiliate of FSA.

Please see the “Description of Financial Security Assurance (U.K.) Limited” section below for further details on the Support Agreements.

FSA is also dependent on the FSA Parent providing to FSA certain management and administrative services and seconding personnel to FSA.

Third party reinsurance risk

FSA may reinsure with third parties (including other financial guarantors) a portion of the liabilities assumed by FSA under certain financial guarantees. Such reinsurance does not alter or limit FSA’s obligations under any financial guarantee. FSA is therefore exposed to the risk of a default by, and insolvency of, any of its third party reinsurers.

Regulation

FSA is authorised by the UK Financial Services Authority to carry out and effect “credit”, “suretyship” and “miscellaneous financial loss” insurance business in the United Kingdom and, pursuant to the EC third non-life insurance directive (No. 92/49/EEC), various European countries (such authorisation being the “**Insurance Business Authorisation**”).

The Insurance Business Authorisation may be revoked, withdrawn or restrictively modified by the UK Financial Services Authority. Such revocation, withdrawal or restrictive modification could have a material adverse impact on FSA, including its ability to generate new business or increased costs of regulatory compliance.

Concentration of business

Each of FSA and the FSA Parent is engaged exclusively in the business of writing financial guarantees, including in respect of securities sold in public offerings and private placements and obligations under credit default swaps.

Although it is FSA's and the FSA Parent's policy to diversify and manage its exposures to single obligors and to particular business sectors, it may have individual large exposures to single obligors or particular business sectors; if a material adverse event or series of events occurs with respect to one or more of these concentrations that is more severe than the assumptions used by FSA or the FSA Parent, such event or series of events could result in losses to FSA or the FSA Parent and could harm FSA's or the FSA Parent's business.

Control by FSA

While the Notes Financial Guarantee mitigates the credit risks which potential investors in the Notes would otherwise be exposed to, involvement of FSA has certain consequences. For example, for so long as it is the Instructing Creditor or Substitution Instructing Creditor, as the case may be, FSA will have the right to exercise many of the discretions which would otherwise rest in the Trustee (including the discretion as to whether to call events of default or enforcement events or to accelerate payments of principal and interest, and in respect of which the Trustee might have sought the directions of the Noteholders). In addition, in the event that FSA is required to make a payment under the Notes Financial Guarantee, the Issuer will be required to reimburse FSA and to pay various fees, costs and expenses to FSA.

Acceleration of Notes

The terms of the Notes Financial Guarantee provide that amounts of principal on any Notes which have become immediately due and payable (whether by virtue of acceleration, prepayment or otherwise) will not be treated as Scheduled Payments (as defined in the Notes Financial Guarantee) which are due for payment unless FSA in its sole discretion elects so to do by notice in writing to the Trustee. If no such election is made, FSA will continue to be liable to make payments of Scheduled Payments (as defined in the Notes Financial Guarantee) in respect of the Notes pursuant to the Notes Financial Guarantee on the dates on which such payments would have been required to be made if such amounts had not become immediately due and payable.

Amounts not guaranteed by the Notes Financial Guarantee

Under the Notes, there are certain circumstances in which Noteholders may be entitled to receive more than the outstanding nominal amount of principal and accrued interest on the Notes. In such circumstances, FSA's obligations under the Notes Financial Guarantee would be limited to the outstanding nominal amount of principal and accrued interest on the Notes and FSA would have no obligation in respect of any additional amounts. These circumstances may arise following a redemption of the Notes pursuant to Conditions 4(h)(i) and 7(c)(ii)(A) (*Original Securities Issuer Call*) or 4(j)(i) and 7(c)(ii)(D) (*Eligible Securities Issuer Call*) or 7(f) (*Noteholders' Option*).

In addition, in certain circumstances, redemption payments under the Notes are not guaranteed under the Notes Financial Guarantee. These circumstances may arise on a redemption of the Notes pursuant to Conditions 4(h)(ii) and 7(c)(ii)(B) (*Original Securities Taxation*), 4(h)(ii) and Condition 7(d)(i) (*Taxation and Redemption following Swap Termination*) and 4(h)(iii) and 7(c)(ii)(C) (*Original Securities Index Event*).

In circumstances where the Notes are redeemed pursuant to Condition 4(h)(iii) and 7(c)(ii)(C) (*Original Securities Index Event*), the termination payment in respect of the Swap shall not be calculated in accordance with Section 6(e) of the Master Agreement, but shall be determined pursuant to the alternative mechanic described in paragraph (A) of "Consequences of Early Termination" in the "Annex

to the Terms and Conditions — Description of Swap” below. In such event, if the Swap Counterparty failed to pay any such termination payment due from it, the Noteholders may not receive the full nominal amount of the Notes and accrued interest thereon but instead may receive a lesser amount. In such circumstances, FSA would have no obligation under the Notes Financial Guarantee, to make up any such shortfall.

No gross-up by FSA

In the event that any withholding or deduction for tax is imposed on payments by FSA under the Notes Financial Guarantee or the Swap Financial Guarantee, FSA will only be required to make payment net of such withholding or deduction. Accordingly, Noteholders will not be entitled to receive grossed-up amounts to compensate for such withholding or deduction and no event of default under the Notes (or the Swap) shall occur as a result of any such withholding or deduction nor shall such withholding or deduction constitute an FSA Event of Default.

Conflicts of interest

Under the Trust Deed, the Trustee will hold a security interest in the property charged and assigned thereunder for the benefit of, amongst others, the Noteholders, whose rights in an enforcement of the security interest will be subordinated to the prior rights of, amongst others, the Swap Counterparty in respect of the Issuer’s obligations to the Swap Counterparty under the Swap (save for certain termination payments where the Swap Counterparty is the defaulting party or the sole affected party) and FSA in respect of certain fees payable under the Financial Guarantees.

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Noteholders and the other secured creditors as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise). In certain circumstances, the Trustee shall have regard only to the interests of the Instructing Creditor or Substitution Instructing Creditor, as the case may be, and in such circumstances, there may be a conflict between the interests of such Instructing Creditor or Substitution Instructing Creditor and the interests of the Noteholders and the other secured creditors.

Risks related to the market

Limited liquidity of the Notes

Although application has been made to list the Notes on the Irish Stock Exchange, there is currently no market for the Notes. There can be no assurance that a secondary market for any of the Notes will develop, or, if a secondary market does develop, that it will provide the holders of the Notes with liquidity or that it will continue for the life of the Notes. Consequently, any Noteholder must be prepared to hold such Notes for an indefinite period of time or until redemption of the Notes. If Barclays Bank PLC begins making a market for the Notes, it is under no obligation to continue to do so and may stop making a market at any time.

TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes shall consist of the terms and conditions set out in the Base Prospectus (the “**Base Conditions**”) as amended or supplemented below. References in the Base Conditions to Final Terms shall be deemed to refer to the terms set out below.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus.

1	Issuer:	Dali Capital PLC
2	Series Number:	17
3	Specified Currency or Currencies:	Sterling
4	Aggregate Nominal Amount:	£150,000,000
5	Issue Price:	100 per cent. of the Aggregate Nominal Amount.
6	Specified Denominations:	£50,000
7	Tradeable Amount:	£1,000
8	Issue Date:	27 September 2005
9	Maturity Date:	The Interest Payment Date falling on or nearest to 15 July 2036
10	Interest Basis:	Floating Rate
11	Redemption/Payment Basis:	Redemption at par
12	Change of Interest or Redemption/Payment Basis:	Not Applicable
13	Put/Call Options:	Put Option Applicable
14	Status of the Notes:	<p>Secured and limited recourse obligations. The Noteholders also have the benefit of the Notes Financial Guarantee (as defined below) which has been issued pursuant to the Notes Financial Guarantee and Indemnity Agreement (as defined below) under which Financial Security Assurance (U.K.) Limited (“FSA”) has unconditionally and irrevocably agreed to pay to the Trustee, for the benefit of the Noteholders, subject as provided in such financial guarantee, all Scheduled Payments (as defined in the Notes Financial Guarantee) of principal of and interest on, the Notes.</p> <p>The form of Notes Financial Guarantee is contained in “Financial Guarantees – Part 1 – Form of Notes Financial Guarantee” below.</p> <p>Under the terms of the Notes Financial Guarantee, FSA’s obligations are to pay amounts in respect of Scheduled Payments (as defined in the Notes Financial Guarantee) on each Payment Date (as defined in the</p>

Notes Financial Guarantee). FSA will not be obliged under any circumstances to accelerate payment under the Notes Financial Guarantee, provided however, that if it elects by way of exercising the FSA Redemption Option, it may do so in whole or in part, provided always that any conditions to accelerate have been satisfied. Any such redemption in part shall be in an amount being equal to an integral multiple of the Tradeable Amount.

In addition, in certain circumstances, redemption payments under the Notes are not guaranteed under the Notes Financial Guarantee. These circumstances may arise on a redemption of the Notes pursuant to Conditions 4(h)(ii) and 7(c)(ii)(B) (*Original Securities Taxation*), 4(h)(ii) and Condition 7(d)(i) (*Taxation and Redemption following Swap Termination*) and 4(h)(iii) and 7(c)(ii)(C) (*Original Securities Index Event*). In circumstances where the Notes are redeemed pursuant to Condition 4(h)(iii) and 7(c)(ii)(C) (*Original Securities Index Event*), the termination payment in respect of the Swap shall not be calculated in accordance with Section 6(e) of the Master Agreement, but shall be determined pursuant to the alternative mechanic described in paragraph (A) of “Consequences of Early Termination” in the “Annex to the Terms and Conditions — Description of Swap” below. In such event, if the Swap Counterparty failed to pay any such termination payment due from it, the Noteholders may not receive the full nominal amount of the Notes and accrued interest thereon but instead may receive a lesser amount. In such circumstances, FSA would have no obligation under the Notes Financial Guarantee, to make up any such shortfall. The Notes Financial Guarantee provided by FSA in respect of the Notes constitutes a direct, unsecured obligation of FSA which will rank at least *pari passu* with all other unsecured obligations of FSA.

Application has been made to the Irish Financial Services Regulatory Authority, as the Competent Authority under the Prospectus Directive for this prospectus to be approved. Application has been made to the

15 **Listing:**

Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

16 **Method of distribution:** Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17 **Fixed Rate Note Provisions** Not Applicable

18 **Floating Rate Note Provisions** Applicable

(i) Interest Period(s): As specified in the Base Conditions

(ii) Specified Interest Payment Dates: 15 January and 15 July in each year commencing 15 January 2006, subject to adjustment in accordance with the Business Day Convention.

Notwithstanding the above, upon a default in the payment by the Issuer of any amounts in respect of interest payable on an Interest Payment Date pursuant to the terms of the Notes (without taking into account any grace period) which interest amounts are Scheduled Interest Payments under the Notes Financial Guarantee, such Interest Payment Date shall be delayed until the Business Day immediately following the day on which the Trustee is due to receive the Amount Demanded (as defined in the Notes Financial Guarantee) from FSA in accordance with the provisions of the Notes Financial Guarantee. *For the avoidance of doubt, in such circumstances, this could result in Interest being paid on the third Business Day following the relevant Scheduled Interest Payment Date.*

(iii) Business Day Convention: Following Business Day Convention

(iv) Additional Business Centre(s) (Condition 6(k)): Not Applicable

(v) Manner in which the Rate(s) of Interest is/ are to be determined: ISDA Determination

(vi) Interest Period Date(s): Not Applicable

(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): Not Applicable

(viii) Screen Rate Determination (Condition 6(b)(iii)(B)): Not Applicable

(ix) ISDA Determination (Condition 6(b)(iii)(A)): Applicable

– Floating Rate Option: GBP – LIBOR – BBA

<ul style="list-style-type: none"> – Designated Maturity: – Reset Date: – ISDA Definitions: (if different from those set out in the Conditions) 	<p>6 months, except in the case of the first Interest Period which shall be subject to Linear Interpolation (as defined in the ISDA Definitions) between the rate for a Designated Maturity of 3 months and the rate for a Designated Maturity of 4 months.</p> <p>The first day of each relevant Interest Accrual Period.</p> <p>Not Applicable</p>
<ul style="list-style-type: none"> (x) Margin(s): (xi) Minimum Rate of Interest: (xii) Maximum Rate of Interest: (xiii) Day Count Fraction (Condition 6(k)): 	<p>plus 0.38 per cent. per annum</p> <p>Not Applicable</p> <p>Not Applicable</p> <p>Actual/Actual-ISDA, provided that for the purpose of the Notes, “Actual/365” shall mean the actual number of days in the Calculation Period divided by 365 (or, if that Calculation Period ends in a leap year, the actual number of days in the Calculation Period divided by 366).</p>
<ul style="list-style-type: none"> (xiv) Rate Multiplier: 	<p>Not Applicable</p>
<ul style="list-style-type: none"> (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: 	<p>Notwithstanding Condition 6(h) (<i>Calculations</i>) of the Base Conditions, the amount of interest payable in respect of the Notes for any Interest Period shall be calculated by multiplying the product of the Rate of Interest and the aggregate outstanding nominal amount of the Notes by the Day Count Fraction (each an “Aggregate Interest Amount”); each Noteholder shall be entitled to its <i>pro rata</i> proportion of the relevant Aggregate Interest Amount on the basis of the aggregate outstanding nominal amount of Notes held by such Noteholder, rounded to the nearest penny (with halves being rounded down).</p>
<p>19 Zero Coupon Note Provisions</p>	<p>Not Applicable</p>
<p>20 Index Linked Interest Note Provisions</p>	<p>Not Applicable</p>
<p>21 Dual Currency Note Provisions</p>	<p>Not Applicable</p>
<p>PROVISIONS RELATING TO THE SECURITY</p>	
<p>22 Mortgaged Property</p>	
<ul style="list-style-type: none"> (i) Securities: 	<p>From time to time, the Original Securities (as defined below) and/or any Eligible Securities (as defined below) purchased or otherwise acquired by or on behalf of the Issuer in accordance with the Investment Guidelines</p>

outlined herein, and as directed by the Substitution Instructing Creditor and held by or on behalf of the Issuer in connection with the Notes.

Initially, the Securities shall comprise £150,000,000 principal amount of £150,000,000 2.033 per cent. Index-Linked Guaranteed Bonds due 2036 issued by Northumbrian Water Finance Plc (the “**Original Securities Issuer**”) and guaranteed by Northumbrian Water Limited (ISIN: XS0230235474) (the “**Original Securities**”).

The registered office of the Original Securities Issuer is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. The Original Securities are listed on the London Stock Exchange and traded on the London Stock Exchange’s Gilt Edged and Fixed Interest Market. The governing law of the Original Securities is English law.

(ii) Security (order of priorities):

Base Condition 4(b) shall be amended as set out in paragraph (B) of the Schedule hereto entitled “Specific Amendments to the Base Conditions”.

(iii) Contract (if applicable):

- (i) The Financial Guarantee Fee Letter;
- (ii) The Indemnification Agreement;
- (iii) The Notes Financial Guarantee and Indemnity Agreement; and
- (iv) The swap financial guarantee and indemnity agreement dated 27 September 2005 (the “**Swap Financial Guarantee and Indemnity Agreement**”) pursuant to which FSA has provided the unconditional and irrevocable financial guarantee to pay to the Swap Counterparty (including any successor or transferee of rights permitted under the Swap), subject as provided in such financial guarantee, all Scheduled Payments (as defined in the Swap Financial Guarantee) under the Swap (the “**Swap Financial Guarantee**”).

The forms of the Notes Financial Guarantee and Swap Financial Guarantee (together the “**Financial Guarantees**”) provided pursuant to the Notes Financial Guarantee and Indemnity Agreement and the Swap Financial Guarantee and Indemnity Agreement

		(together the “ Financial Guarantee and Indemnity Agreements ”) respectively, are contained in Parts 1 and 2 under “Financial Guarantees” below.
	(iv) Beneficiary(ies):	FSA in respect of amounts owed to FSA pursuant to the Financial Guarantee and Indemnity Agreements. See “Description of Financial Security Assurance (U.K.) Limited” below.
	(v) Securities Agreement:	The Issuer shall purchase the Original Securities pursuant to a securities sale agreement dated 27 September 2005 between the Issuer and Barclays Bank PLC (the “ Securities Agreement ”).
	(vi) Counterparty:	Barclays Bank PLC
	(vii) Swap (if applicable):	An ISDA Master Agreement (1992 Multicurrency – Cross Border) dated as of 8 April 2005 between the Issuer and the Swap Counterparty together with the Schedule thereto dated as of 8 April 2005 (together, the “ Master Agreement ”) and a confirmation thereto with an effective date of 27 September 2005 entered into in connection with the Notes (the “ Confirmation ” and together with the Master Agreement, the “ Swap ”). For a description of the Swap, see the Annex hereto entitled “Description of Swap”.
	Swap Counterparty(ies):	Barclays Bank PLC. See “Description of the Swap Counterparty” below.
	Swap Guarantor (if applicable):	Not Applicable
	(vii) Details of Credit Support Document (if applicable):	Not Applicable
	(viii) Credit Support Provider:	Not Applicable
23	Realisation of Security:	Base Condition 4(d) shall be amended as set out in paragraph (D) of the Schedule hereto entitled “Specific Amendments to the Base Conditions”.

PROVISIONS RELATING TO REDEMPTION

24	Call Option	Not Applicable
25	Put Option	Applicable, as set out in Condition 7(f) as amended and restated in paragraph (M) of the Schedule hereto.
26	Exchangeable Notes:	No
27	Exchange Event:	Not Applicable
28	Repayable Assets:	Not Applicable

29	Final Redemption Amount of each Note	100 per cent. of the outstanding nominal amount of such Note
30	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:	Not Applicable
31	Early Redemption Amount:	As set out in Conditions 4(h), 7(c), 7(d), 7(f) and 10, each as amended in paragraphs (G), (K), (L), (M) and (O) respectively of the Schedule hereto. If at any time the Securities are required to be sold to meet the obligations of the Issuer under the Notes, the Calculation Agent, on behalf of the Issuer shall procure such sale.
	Unmatured Coupons to become void upon early redemption (Bearer Notes only) (Condition 8(f)):	Yes
32	Mark-to-Market Call Option	Not Applicable
33	Securities Rating Call Option	Not Applicable
34	Mark-to-Market Redemption Option	Not Applicable
GENERAL PROVISIONS APPLICABLE TO THE NOTES		
35	Form of Notes:	Bearer Notes
	(i) Temporary or permanent Global Note/Certificate:	Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.
	(ii) Applicable TEFRA exemption:	D Rules
36	Additional Business Centre(s) (Condition 8(h)) or other special provisions relating to payment dates:	London
37	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Yes. Talons shall mature on the 25 th Interest Payment Date in the case of the first Talon and each 26 th Interest Payment Date thereafter.
38	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 (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	Not Applicable
39	Details relating to Instalment Notes:	Not Applicable
40	Redenomination, renominatisation and reconventioning provisions:	Not Applicable
41	Consolidation provisions:	Not Applicable
42	Other terms or special conditions:	As set out in the Schedule hereto entitled

“Specific Amendments to the Base Conditions” which contains certain amendments to the Base Conditions for the purpose of these Notes.

DISTRIBUTION

43	(i) If syndicated, names of Managers:	Not Applicable
	(ii) Stabilising Manager (if any):	Barclays Bank PLC
	(iii) Dealer’s Commission:	Not Applicable
44	If non-syndicated, name of Dealer:	Barclays Bank PLC
45	Additional selling restrictions:	Not Applicable
46	Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 12(a):	Not Applicable

OTHER INFORMATION

1 LISTING

(i) Listing:	The Irish Stock Exchange
(ii) Admission to trading:	Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under Directive 2003/71/EC for this prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.
(iii) Estimate of total expenses related to admission to trading:	Euro 6,000

2 RATINGS

Ratings:	The Notes to be issued have been rated: AAA by Standard & Poor’s; and Aaa by Moody’s.
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3 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save as discussed in “Risk Factors — Risks related to the counterparties”, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”

OPERATIONAL INFORMATION

4	ISIN Code:	XS0230180472
5	Common Code:	023018047
6	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	Not Applicable
7	Delivery:	On the Issue Date, delivery of the beneficial interest in the Temporary Global Note will be made in book-entry form through the facilities of Euroclear or Clearstream,

Luxembourg, against payment therefor in immediately available funds.

8 The Agents appointed in respect of the Notes are:

Issuing and Paying Agent:

The Bank of New York

Paying Agent:

AIB International Financial Services Limited

Custodian:

The Bank of New York

Calculation Agent:

Barclays Bank PLC. *Except to the extent that the Calculation Agent has acted negligently or fraudulently or is in wilful breach of its duties, the Calculation Agent shall not be liable to the Noteholders for any expense, loss or damage suffered by or occasioned to them. In any event, the Calculation Agent shall not be responsible for any direct loss or indirect consequential losses, notwithstanding it having been advised of the possibility of such loss.*

9 The aggregate nominal amount of Notes issued has been translated into Euro at the rate of £1 = €1.48, producing a sum of (for Notes not denominated in euro):

Euro 222,000,000

SCHEDULE TO THE TERMS AND CONDITIONS – SPECIFIC AMENDMENTS TO THE BASE CONDITIONS

The Base Conditions shall be amended for the purpose of the Notes as set forth below:

(A) Condition 4(a) shall be amended as follows:

(i) by inserting the following language immediately after “Trustee” in the fifth line thereof:

“(for itself, the Noteholders and the Couponholders, the Agents, the Swap Counterparty, FSA and the Counterparty (together the “**Secured Parties**”)); and

(ii) by inserting the following paragraph immediately prior to the italicised wording at the end thereof:

“Neither the Notes Financial Guarantee nor the Swap Financial Guarantee constitute part of the Mortgaged Property. The benefit of the Notes Financial Guarantee shall be held by the Trustee for the Noteholders exclusively. The Swap Financial Guarantee is for the benefit of the Swap Counterparty only.”

(B) Condition 4(b) shall be deleted in its entirety and replaced with the following:

“(b) Application of moneys: The Issuer (in the case of paragraph (I) below) and the Issuer and the Trustee (in the case of paragraph II below) shall (subject to the provisions of the Supplemental Trust Deed and to Clause 6.3 of the Principal Trust Deed) apply all moneys received by it (in the case of the Trustee, under the provisions of the Trust Deed in connection with the realisation or enforcement of the Security) as follows:

(I) **Pre-enforcement Order of Priority:** Prior to the enforcement of the Security, all payments received under or in respect of the Mortgaged Property shall be applied in the following order of priority:

(i) *first*, to pay all taxes (if any) applicable to the Issuer in respect of this Series;

(ii) *secondly*, to pay all amounts due to the Trustee in accordance with the Trust Deed;

(iii) *thirdly*, to pay all amounts due to the Agents in accordance with the Agency Agreement, Pari Passu Ranking;

(iv) *fourthly*, to pay any unpaid amounts and termination payments due to the Swap Counterparty under the Swap except in circumstances where the Swap is terminated in accordance with its terms as a consequence of a Swap Counterparty Event of Default;

(v) *fifthly*, to pay (A) any unpaid Financial Guarantee Fee and (B) (only in the circumstances where the Notes are redeemed pursuant to Condition 7(c)(ii)(A) (*Mandatory Redemption Following an Original Securities Issuer Call*) or at the direction of an Extraordinary Resolution where FSA has issued an Original Securities Financial Guarantee or an Eligible Securities Financial Guarantee in accordance with Condition 7(d) (*Taxation and Redemption following Swap Termination*) or pursuant to Condition 7(f) (*Noteholders’ Option*)) the FSA Make Whole Amount, in each case due to FSA under the Financial Guarantee Fee Letter;

(vi) *sixthly*, to pay amounts due to the Noteholders and Couponholders in respect of the Notes, Coupons and Receipts provided that amounts representing interest shall rank ahead of amounts representing principal;

- (vii) *seventhly*, to pay any due and unpaid FSA Indemnity Amounts;
 - (viii) *eighthly*, (other than where paid pursuant to item (v) above) to pay any due and unpaid FSA Make Whole Amount due to FSA under the Financial Guarantee Fee Letter;
 - (ix) *ninthly*, to pay any unpaid amounts due to the Swap Counterparty under the Swap (other than where paid pursuant to item (iv) above);
 - (x) *tenthly*, to pay all amounts due to the Counterparty in accordance with the Securities Agreement; and
 - (xi) *eleventhly*, to pay any remaining balance to the Cash Account; and
- (II) **Post-Enforcement Order Of Priority:** Following enforcement of the Security, all payments received under or in respect of the Mortgaged Property shall be applied in the following order of priority:
- (i) *first*, to pay all amounts due to the Trustee in accordance with the Trust Deed;
 - (ii) *secondly*, to pay all amounts due to the Agents in accordance with the Agency Agreement, Pari Passu Ranking;
 - (iii) *thirdly*, to pay any unpaid amounts and termination payments due to the Swap Counterparty under the Swap except in circumstances where the Swap is terminated in accordance with its terms as a consequence of a Swap Counterparty Event of Default;
 - (iv) *fourthly*, to pay any unpaid Financial Guarantee Fee;
 - (v) *fifthly*, to pay amounts due to the Noteholders and Couponholders in respect of the Notes, Coupons and Receipts provided that amounts representing interest shall rank ahead of amounts representing principal;
 - (vi) *sixthly*, to pay any due and unpaid FSA Indemnity Amounts;
 - (vii) *seventhly*, (other than where paid pursuant to item (iv) above) to pay any due and unpaid FSA Make Whole Amount due to FSA under the Financial Guarantee Fee Letter;
 - (viii) *eighthly*, to pay any unpaid amounts due to the Swap Counterparty under the Swap (other than where paid pursuant to item (iii) above);
 - (ix) *ninthly*, to pay all amounts due to the Counterparty in accordance with the Securities Agreement; and
 - (x) *tenthly*, to pay any remaining balance to the Cash Account.

Notwithstanding anything in (I) or (II) above, no Obligor under the Swap, nor the Issuing and Paying Agent or the Custodian shall benefit from the Security in respect of which it is itself an obligor.

Any Creditor that has a claim in respect of more than one Obligation may rank differently in respect of each Obligation.

If the moneys received by the Trustee are not enough to pay in full all amounts to persons whose claims rank rateably, the Trustee shall apply the moneys *pro rata* on the basis of the amount due to each party entitled to such payment.

“**Pari Passu Ranking**” stated in respect of any claims referred to above, means that such claims shall rank rateably *inter se*.”

- (C) Condition 4(c) shall be amended by inserting the following at the end thereof:

“or if FSA has made a payment in respect of the Notes Financial Guarantee or the Swap Financial Guarantee following a failure by the Issuer to make a payment under the Notes or the Swap, as the case may be, and FSA directs the Trustee to enforce the Security in its capacity as Instructing Creditor pursuant to Condition 4(d)”.

- (D) Condition 4(d) shall be deleted in its entirety and replaced with the following:

“**(d) Realisation of Security:** If any Security becomes enforceable, the Trustee shall on receipt of an Instructing Creditor Direction (subject to being indemnified to its satisfaction), enforce the Security constituted by the Trust Deed.

To do this it shall take possession of and/or realise the Securities (provided that if some only of the Notes have become repayable then the Trustee shall take possession of or realise only that proportion of the Securities equal to the proportion of the nominal amount of the Notes that are subject to acceleration rounded up to the nearest minimum denomination of the relevant Securities) and/or take action against any person liable in respect of any Repayable Assets to enforce repayment of such Repayable Assets, enforce, terminate and/or realise any Credit Support Document, Swap and/or Securities Agreement in accordance with its or their terms, and/or take action against any Obligor but without any liability as to the consequence of such action and without having regard to the effect of such action on individual Noteholders or Couponholders and provided that the Trustee shall not be required to take any action that would involve any personal liability or expense without first being indemnified to its satisfaction.”

- (E) Condition 4(f) shall be deleted in its entirety and replaced with the following:

“**(f) Substitution of Mortgaged Property:** The Issuer shall, if so directed by the Substitution Instructing Creditor, where the Trustee agrees that such substitution is not materially prejudicial to the interests of the Noteholders and the prior written consent of each Other Creditor has been obtained, use reasonable endeavours to procure the substitution of alternative Mortgaged Property (which may include Eligible Securities purchased in accordance with Condition 4(i) (*Eligible Securities*)) for such of the Mortgaged Property as it may deem appropriate (provided that such substitution will not at the time of substitution result in a downgrading of any rating assigned to the related Notes, as confirmed in writing by Moody’s and Standard & Poor’s). Any such alternative Mortgaged Property shall be held subject to Security in favour of the Trustee and the Issuer shall execute such further documentation as the Trustee may require in order to constitute such Security as a condition to such substitution. The Issuer shall notify the Noteholders thereof in accordance with Condition 15 (*Notices*) and, if the Notes are listed on any stock exchange, the Issuer shall also notify such stock exchange of such substitution.

The Swap shall not be terminated following any such substitution and if Eligible Securities have been substituted in accordance with the immediately preceding paragraph, the Issuer and the Swap Counterparty shall, with the prior written consent of the Substitution Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.”

- (F) Condition 4(g) shall be deleted in its entirety and replaced with the following:

“**(g) Issuer’s rights as beneficial owner of Collateral:** The Issuer will only exercise any rights in its capacity as beneficial owner of the Collateral (i) if directed by the Substitution Instructing Creditor and, if such direction is given, the Issuer will act only in accordance with such direction or (ii) in the event that an FSA Event of Default has occurred, with the consent of the Trustee or as

directed by an Extraordinary Resolution of the Noteholders. In particular, the Issuer will not attend or vote at any meeting of holders of the Securities, or give any consent or notification or make any declaration in relation to the Collateral, unless directed to do so by the Substitution Instructing Creditor.”

(G) Condition 4 shall be amended by inserting the following new paragraphs after Condition 4(g):

“(h) Events relating to the Original Securities:

(i) Exercise of the Original Securities Issuer Call

If the Original Securities Issuer redeems all (but not some only) of the Original Securities pursuant to condition 5(b) of the terms and conditions of the Original Securities (the “**Original Securities Issuer Call**”), the redemption proceeds received by the Issuer (the “**Call Proceeds**”) shall be paid into the Cash Account and subsequently applied as set out in sub-paragraphs (A) and (B) below. The Calculation Agent shall request the Swap Counterparty to provide the Swap Termination Value that would be due on the date that the Call Proceeds are paid to the Issuer or if such date does not fall on a Business Day for the purpose of the Notes, the immediately following Business Day (the “**Call Proceeds Date**”) if the Swap were to be terminated.

(A) In circumstances where the actual Call Proceeds plus the Swap Termination Value (if such amount is payable to the Issuer) (together, the “**Realised Call Amount**”) would be sufficient to pay in full the claims of all Secured Parties pursuant to items (i) to (vii) (both inclusive) in accordance with Condition 4(b)(l) (*Pre-enforcement Order of Priority*) as determined by the Calculation Agent (and assuming for this purpose that the Notes will be redeemed at the Make Whole Redemption Amount), the Swap shall be terminated on the Call Proceeds Date on the basis of such Swap Termination Value and the Notes shall be redeemed in accordance with Condition 7(c)(ii)(A) (*Mandatory Redemption Following Original Securities Issuer Call*). If the Call Proceeds actually received by the Issuer are less than the amount which was scheduled to be paid on the Call Proceeds Date, this Condition 4(h)(i)(A) shall not be applicable and the provisions of Condition 4(h)(v) (*Original Securities Default*) shall apply instead. For the avoidance of doubt, the guarantee provided pursuant to the Notes Financial Guarantee in such circumstances in respect of the Issuer’s obligation to make a payment of principal on the Notes is limited to the nominal amount of the Notes outstanding only.

(B) In circumstances where the Realised Call Amount would be insufficient to pay in full all Secured Parties as set out in sub-paragraph (A) above and provided that the Issuer has not received prior to the Call Proceeds Date either (i) notice from Noteholders such that the Notes are to be redeemed pursuant to Condition 7(f) (*Noteholders’ Option*) or (ii) an FSA Redemption Option Notice, then the Swap shall not be terminated and the Issuer shall use reasonable endeavours to procure that the Call Proceeds are applied to purchase Eligible Securities at the direction of the Substitution Instructing Creditor and in accordance with Condition 4(i) (*Eligible Securities*).

Upon, or at any time following, the purchase of such Eligible Securities by the Issuer, the Issuer and the Swap Counterparty shall, if so directed by the Substitution Instructing Creditor, use their reasonable endeavours to effect a

Swap Adjustment. The Swap Financial Guarantee and the Notes Financial Guarantee shall continue to be in effect.

(ii) *Original Securities Taxation*

- (A) If the Original Securities Issuer has or will become obliged to make any withholding or deduction for or on account of tax in respect of payments on the Original Securities (an “**Original Securities Tax Event**”) and as a result thereof has become obliged to pay additional amounts as provided in condition 7 of the terms and conditions of the Original Securities (“**Gross Up**”), the Issuer shall appoint a suitable nominee to participate on its behalf to the fullest extent permitted under the terms of the Original Securities in any and all meetings of Bondholders (as such term is defined in the Original Securities Prospectus) convened with the aim of effecting (a) a restructuring to the Original Securities or the guarantee in respect thereof, (b) a substitution of the Original Securities Issuer as principal debtor under the Original Securities with another entity or (c) the issue of new securities in substitution for and replacement of the Original Securities, each pursuant to condition 5(c) of the terms and conditions of the Original Securities in order to avoid the requirement to make such withholding or deduction.

At any such meeting of Bondholders or in respect of a Written Resolution (as such term is defined in the Original Securities Prospectus) in lieu of any such meeting, the Issuer shall act at the direction of the Instructing Creditor. If a course of action is agreed in respect of (a), (b) or (c) above (each an “**Original Securities Taxation Restructuring**”), the Issuer and the Swap Counterparty shall, with the prior written consent of the Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.

Notwithstanding the occurrence of an Original Securities Taxation Restructuring, the Notes Financial Guarantee and the Swap Financial Guarantee shall continue to be in effect, as more particularly described therein.

- (B) If following an Original Securities Tax Event, the Original Securities Issuer is not obliged to Gross Up and the Original Securities Issuer (or the guarantor of the Original Securities, if called upon) makes payments subject to the withholding or deduction of amounts in respect of any taxes, duties, assessments or governmental charges (the actual amount of each such withholding or deduction being an “**Original Securities Tax Reduction Amount**”), the payment obligation of the Issuer under the Swap falling on or immediately following the date of such reduced payment in respect of the Original Securities will be reduced by an amount equal to the relevant Original Securities Tax Reduction Amount. Notwithstanding such reduction of the payment obligation of the Issuer under the Swap, in these circumstances neither (x) the corresponding payment obligation of the Swap Counterparty under the Swap nor (y) the corresponding payments of principal and/or interest by the Issuer under the Notes, each falling on or immediately following the date of such reduced payment in respect of the Original Securities, shall be reduced by the relevant Original Securities Tax Reduction Amount.

Any reduction in the payments by the Issuer under the Swap in accordance with the above sub-paragraph shall not constitute an Event of Default (as defined in the Swap) in respect of the Issuer and the Swap Financial Guarantee shall continue to be in effect.

- (C) If the Original Securities Issuer redeems the Original Securities pursuant to condition 5(c) of the terms and conditions of the Original Securities following an Original Securities Tax Event which obliges the Original Securities Issuer to Gross Up, the Notes shall be redeemed in accordance with Condition 7(c)(ii)(B) (*Mandatory Redemption Following Original Securities Tax Event*). The date on which the proceeds of such redemption are scheduled to be paid to the Issuer pursuant to the terms and conditions of the Original Securities shall be the “**Tax Proceeds Date**”.

The redemption and termination payments under the Notes and Swap in these circumstances are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

(iii) *Original Securities Index Event*

- (A) If the Original Securities Issuer substitutes the index to which the Original Securities are linked or otherwise agrees to amend the Original Securities in accordance with condition 8 of the terms and conditions of the Original Securities, the Notes Financial Guarantee and the Swap Financial Guarantee shall continue to be in effect.
- (B) If an adjustment to, or a substitute for, the index to which the Original Securities are linked cannot be agreed, the Issuer shall appoint a suitable nominee to participate on its behalf to the fullest extent permitted under the terms and conditions of the Original Securities in any and all meetings of Bondholders convened with the aim of effecting the substitution for the Original Securities of securities issued by the Original Securities Issuer and guaranteed by the guarantor thereof, which would place the holders of the Original Securities in no worse position than they would have been in had the events entitling the Original Securities Issuer to redeem not occurred, all pursuant to condition 5(d) of the terms and conditions of the Original Securities.

At any such meeting of Bondholders or in respect of a Written Resolution (as such term is defined in the Original Securities Prospectus) in lieu of any such meeting, the Issuer shall act at the direction of the Instructing Creditor. If a course of action is agreed in accordance with the above (each an “**Original Securities Index Restructuring**”), the Issuer and the Swap Counterparty shall, with the prior written consent of the Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.

In such event, the Notes Financial Guarantee and the Swap Financial Guarantee shall continue to be in effect.

- (C) If the Original Securities Issuer redeems all, but not some only, of the Original Securities in accordance with condition 5(d) of the terms and conditions of the Original Securities (an “**Original Securities Index Event**”) the Notes shall be redeemed in accordance with Condition 7(c)(ii)(C) (*Mandatory Redemption Following Original Securities Index Event*). The date on which the proceeds of

such redemption are scheduled to be paid to the Issuer shall be the “**Index Proceeds Date**”. Such redemption and termination payments under the Notes and the Swap are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

In such circumstances, the termination payment in respect of the Swap shall not be calculated in accordance with Section 6(e) of the Master Agreement but an amount (the “**Index Termination Amount**”) shall be payable by the Issuer to the Swap Counterparty equal to:

- (i) the final redemption proceeds (including interest thereon) received by the Issuer in respect of the redemption of the Original Securities pursuant to the terms and conditions of the Original Securities; less
- (ii) the nominal amount of the Notes (together with the interest accrued thereon until the due date of redemption thereof) payable in respect of the Notes,

provided that (1) if the Index Termination Amount is negative, the absolute value thereof shall be payable by the Swap Counterparty to the Issuer and (2) if the Index Termination Amount is positive and exceeds the amount that would otherwise be payable by the Issuer to the Swap Counterparty had payment instead been made pursuant to Section 6(e) of the Agreement (with calculations determined on the basis that an Additional Termination Event has occurred and the Issuer is the sole Affected Party), the Index Termination Amount shall not be paid in accordance with the above and payment will be made pursuant to Section 6(e) of the Agreement.

Such redemption and termination payments are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

(iv) *Original Securities Bondholder Put*

The Issuer shall, as soon as reasonably practicable after receipt of an FSA Put Notice (which can only be given by FSA to the extent that an FSA Event of Default has not occurred and is not continuing), exercise its option pursuant to condition 5(e) of the terms and conditions of the Original Securities to require the Original Securities Issuer to redeem the Original Securities in whole but not in part. In such circumstances, the Issuer shall use reasonable endeavours to procure that the proceeds of the redeemed Original Securities relating to the Notes outstanding are applied to purchase Eligible Securities at the direction of the Substitution Instructing Creditor and in accordance with Condition 4(i) (*Eligible Securities*), provided that this shall not prevent FSA exercising its FSA Redemption Option in accordance with Condition 7(c)(iii) (*FSA Optional Redemption*). In such circumstances, the Swap Financial Guarantee and the Notes Financial Guarantee shall continue to be in effect.

The Swap shall not be terminated following such purchase and upon, or at any time following, the purchase of Eligible Securities by the Issuer in accordance with the immediately preceding paragraph, the Issuer and the Swap Counterparty shall, with the prior written consent of the Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.

(v) *Original Securities Default*

In the event of an Original Securities Default which causes the Original Securities to become due and repayable in accordance with condition 9 of the terms and conditions of the Original Securities, the Issuer shall use reasonable endeavours to procure that the proceeds of the redeemed Original Securities (whether or not following enforcement) relating to the Notes outstanding are applied to purchase Eligible Securities in accordance with Condition 4(i) (*Eligible Securities*), provided that this shall not prevent FSA exercising its FSA Redemption Option in accordance with Condition 7(c)(iii) (*FSA Optional Redemption*). In such circumstances the Swap Financial Guarantee and the Notes Financial Guarantee shall continue to be in effect.

The Swap shall not be terminated following such purchase and upon, or at any time following, the purchase of Eligible Securities by the Issuer in accordance with the immediately preceding paragraph, the Issuer shall, with the prior written consent of the Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.

(i) **Eligible Securities:**

If Eligible Securities are required to be purchased in accordance with Conditions 4(h)(i)(B), 4(h)(iv) or 4(h)(v), the Eligible Securities to be so purchased shall be assets which comply with the Investment Guidelines and which comprise:

- (1) any List A Eligible Securities and/or List B Eligible Securities selected at the sole discretion of the Substitution Instructing Creditor; and/or
- (2) any List C Eligible Securities selected at the sole discretion of the Substitution Instructing Creditor upon the Substitution Instructing Creditor providing evidence satisfactory to the Calculation Agent that investments solely in List A Eligible Securities and List B Eligible Securities would (or would be likely to) otherwise result in a shortfall in the yield (determined over the tenor of the Swap) required to satisfy the Issuer's payments to the Swap Counterparty under the Swap; and/or
- (3) any List C Eligible Securities which do not satisfy the requirements of sub-paragraph (2) above, List D Eligible Securities and/or List E Eligible Securities selected at the sole discretion of the Substitution Instructing Creditor but subject to the consent of the Swap Counterparty if the Substitution Instructing Creditor is FSA.

(j) **Events relating to Eligible Securities:**

(i) *Eligible Securities Issuer Call*

In the event that the issuer of Eligible Securities exercises the right to redeem such Eligible Securities in whole or in part in a manner similar to the Original Securities Issuer Call, the redemption proceeds received by the Issuer shall be paid into the Cash Account. The Calculation Agent shall request the Swap Counterparty to provide the Swap Termination Value that would be due on the date that the proceeds of redemption of such Affected Call Eligible Securities are scheduled to be paid to the Issuer (the "**Eligible Call Proceeds Date**") if the Relevant Proportion of the Swap were to be terminated. The Calculation Agent shall determine whether or not there are sufficient funds to pay in full the claims of all Secured Parties following an equivalent procedure to that described in Condition 4(h)(i)(A) (and assuming for this purpose that the Notes will be redeemed at the Make Whole Redemption

Amount), *mutatis mutandis*, provided however that for this purpose, the determination of sufficiency shall be based on the Relevant Proportion of the amounts that would otherwise be owing to such parties.

If the Calculation Agent determines that there are sufficient funds, each of the Notes shall be redeemed (in part in an amount equal to the Relevant Proportion of the Specified Denomination) in accordance with Condition 7(c)(ii)(D) (*Mandatory Redemption Following Eligible Securities Issuer Call*), the Relevant Proportion of the Swap shall be terminated and accordingly the amounts under the Swap Financial Guarantee and under the Notes Financial Guarantee shall be correspondingly reduced by the Relevant Proportion. Such redemption payments under the Eligible Securities and under the Notes are not guaranteed by the Notes Financial Guarantee.

(ii) *Eligible Securities Tax Event*

Subject to Condition 7(d)(i) (*Taxation and Redemption following Swap Termination*), in the event that a withholding or deduction occurs for or on account of tax in respect of payments of interest on or principal of Eligible Securities held by the Issuer and additional amounts are not required to be paid to gross up for such withholding or deduction (an “**Eligible Securities Tax Event**”), there will be no effect on the Notes or the payment obligations of either the Issuer or the Swap Counterparty under the Swap (or the obligations of FSA under the Swap Financial Guarantee or the Notes Financial Guarantee) except that in the case where the issuer of Affected Tax Eligible Securities chooses to make payments of interest on and principal of such Eligible Securities following such event net of such taxes, duties, assessments or governmental charges (the actual amount of each such reduction being an “**Eligible Securities Tax Reduction Amount**”), (x) the payment obligation of the Issuer under the Swap falling on or immediately following the date of such reduced payment in respect of the Eligible Securities will be reduced by an amount equal to the relevant Eligible Securities Tax Reduction Amount; (y) the payment obligation of the Swap Counterparty under the Swap falling on or immediately following the date of such reduced payment in respect of the Eligible Securities will be reduced by an amount (the “**Eligible Securities Reduction Amount**”) equal to the sum of (i) the relevant Eligible Securities Tax Reduction Amount applicable to such payment obligation and (ii) any Outstanding Eligible Securities Tax Reduction Amount (as defined below); and (z) the corresponding payment(s) of principal and/or interest by the Issuer under the Notes, falling on or immediately following the date of such reduced payment in respect of the Eligible Securities, will be reduced in aggregate by an amount equal to the relevant Eligible Securities Tax Reduction Amount and Outstanding Original Securities Tax Reduction Amount, such reduction to be applied in respect of each Note and/or Coupon, as the case may be, on a *pro rata* and *pari passu* basis.

“**Outstanding Eligible Securities Tax Reduction Amount**” means, as at any Swap Counterparty payment date, the excess of any of the Eligible Securities Reduction Amount over the payment obligation of the Swap Counterparty in each case as at the immediately prior Swap Counterparty payment date, together with interest on such amount at the London interbank offered rate applicable to the calculation period commencing on such Swap Counterparty payment date and for the period from such date to the next succeeding Swap Counterparty payment date.

Any reduction in payments under the Swap in accordance with the above subparagraph shall not constitute an Event of Default (as defined in the Swap) in

respect of either party under the Swap and the Swap Financial Guarantee shall continue to be in effect but shall only apply to the extent of such reduced payment obligations of the Issuer, as more particularly described in the Swap Guarantee. Any reduction in payments made by the Issuer under the Notes in accordance with the above sub-paragraph shall not constitute an Issuer Event of Default in accordance with Condition 10 (*Issuer Events of Default*) and the Notes Financial Guarantee shall continue to be in effect but shall only apply to the extent of such reduced payment obligations of the Issuer, as more particularly described in the Notes Financial Guarantee.

To the extent that an early redemption occurs in respect of Eligible Securities held by the Issuer following an Eligible Securities Tax Event, the Issuer shall reinvest the relevant redemption proceeds thereof in further Eligible Securities in accordance with Condition 4(j)(iv) (*Reinvestment*) below and the Notes Financial Guarantee shall continue to be in effect.

(iii) *Eligible Securities Index Event*

If the issuer of any Eligible Securities substitutes the index to which such Eligible Securities are linked or otherwise agrees to materially amend such Eligible Securities in accordance with the respective terms and conditions of such Eligible Securities, the Issuer and the Swap Counterparty shall, with the prior written consent of the Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment.

In such event, the Notes Financial Guarantee and Swap Financial Guarantee shall continue to be in effect.

If the issuer of any Eligible Securities redeems all, or some only, of the Eligible Securities in accordance with the respective terms and conditions of such Eligible Securities for reasons relating to the index to which such Eligible Securities are linked, the Issuer shall reinvest the relevant redemption proceeds thereof in further Eligible Securities in accordance with Condition 4(j)(iv) (*Reinvestment*) below and the Notes Financial Guarantee shall continue to be in effect.

(iv) *Reinvestment*

The Issuer (A) may at the direction of the Substitution Instructing Creditor substitute Eligible Securities in place of the proceeds of redemption of any Securities it holds at any time or in place of any Eligible Securities which have been redeemed (whether upon maturity thereof or as a result of an event of default (howsoever described) in respect of the Eligible Securities or in the event that they become Affected Call Eligible Securities, but excluding any redemption of any Affected Call Eligible Securities which would be subject to Condition 4(j)(i) (*Eligible Securities Issuer Call*)), and (B) shall substitute any Securities it holds in the circumstances set forth in the immediately following paragraph.

In the circumstances where the portfolio of Securities held by the Issuer at any time either (A) has more than 25 per cent. of the market value, as determined by the Calculation Agent in consultation with the Substitution Instructing Creditor, of all of the Securities held by the Issuer (or, in the case of an Eligible GIC or Eligible Guarantee, the market value of all of the Underlying Assets) constituted by Eligible Securities with ratings below A- by Standard & Poor's or A3 by Moody's or (B) has more than five per cent. of the market value, as determined by the Calculation Agent

in consultation with the Substitution Instructing Creditor, of all of the Securities held by the Issuer (or, in the case of an Eligible GIC or Eligible Guarantee, the market value of all of the Underlying Assets) constituted by Eligible Securities with less than Investment Grade Ratings or (C) contains any Eligible Securities (or, in the case of an Eligible GIC or an Eligible Guarantee, any Underlying Assets) with ratings below BB- by Standard & Poor's and Ba3 by Moody's, the Issuer shall, as directed by the Substitution Instructing Creditor using its reasonable endeavours, on behalf of the Issuer, sell Eligible Securities and purchase substitute Eligible Securities as directed by the Substitution Instructing Creditor within 30 days of the breach of any ratings requirement as set out in any of sub-paragraphs (A), (B) or (C) above, provided that the substitution of Eligible Securities must not breach the Investment Guidelines.

In the event that the Issuer substitutes any Eligible Securities in accordance with this Condition, the Issuer and the Swap Counterparty shall, if so directed by the Substitution Instructing Creditor, use their reasonable endeavours to effect a Swap Adjustment."

(k) Deduction or Withholding for Tax in respect of payments under the Swap:

- (A) Subject to Condition 7(d)(i) (*Taxation and Redemption following Swap Termination*), in the event that a withholding or deduction on account of any Tax (as defined in the Swap) is made on any payment by the Issuer to the Swap Counterparty pursuant to the Swap (an "**Issuer Swap Tax Event**"), the actual amount of such withholding or deduction (the "**Issuer WHT Reduction Amount**") shall be deducted from the payment which would otherwise be due from the Issuer to the Swap Counterparty and the Issuer shall pay the resultant net amount to the Swap Counterparty.

Upon the occurrence of an Issuer Swap Tax Event, (x) the payment obligation of the Swap Counterparty pursuant to the Swap falling on or immediately following the date of the related Issuer Swap Tax Event shall be reduced by an amount (the "**Swap Reduction Amount**") equal to the sum of (i) the relevant Issuer WHT Reduction Amount applicable to such payment obligation and (ii) any Outstanding Issuer WHT Reduction Amount (as defined below); and (y) the corresponding payment(s) of principal and/or interest by the Issuer under the Notes falling on or immediately following the date of the related Issuer Swap Tax Event, will be reduced by the relevant Issuer WHT Reduction Amount and Outstanding Issuer WHT Reduction Amount on a *pro rata* and *pari passu* basis.

"**Outstanding Issuer WHT Reduction Amount**" means, as at any Swap Counterparty payment date, the excess of the Swap Reduction Amount over the payment obligation of the Swap Counterparty, in each case as at the immediately prior Swap Counterparty payment date together with interest on such amount at the London interbank offered rate applicable to the calculation period commencing on such Swap Counterparty payment date and for the period from such date to the next succeeding Swap Counterparty payment date.

- (B) Subject to Condition 7(d)(i) (*Taxation and Redemption following Swap Termination*), in the event that a withholding or deduction on account of any Tax (as defined in the Swap) is made on any payment by the Swap Counterparty to the Issuer pursuant to the Swap (except as a result of paragraph (A) above) (a "**Counterparty Swap Tax Event**"), the actual amount of such withholding or deduction (the "**Counterparty WHT Reduction Amount**") shall be deducted from the payment which would

otherwise be due from the Swap Counterparty to the Issuer and the Swap Counterparty shall pay the resultant net amount to the Issuer.

Upon the occurrence of a Counterparty Swap Tax Event, the corresponding payments of principal and/or interest by the Issuer under the Notes falling on or immediately following the date of the related Counterparty Swap Tax Event will be reduced by the relevant Counterparty WHT Reduction Amount on a *pro rata* and *pari passu* basis.

Any reduction in payments under the Swap in accordance with sub-paragraphs (A) and (B) above shall not constitute an Event of Default (as defined in the Swap) in respect of either party under the Swap and the Swap Financial Guarantee shall continue to be in effect but shall only apply to the extent of such reduced payment obligations of the Issuer, as more particularly described in the Swap Financial Guarantee. Any reduction in payments made by the Issuer under the Notes in accordance with sub-paragraphs (A) and (B) above shall not constitute an Issuer Event of Default in accordance with Condition 10 (*Issuer Events of Default*) and the Notes Financial Guarantee shall continue to be in effect but shall only apply to the extent of such reduced payment obligations of the Issuer, as more particularly described in the Notes Financial Guarantee.

(I) Subrogation of FSA:

- (a) To the extent that any payment is made by FSA pursuant to the Notes Financial Guarantee and such payment is not otherwise reimbursed by the Issuer in full, FSA shall be fully and automatically subrogated to the extent of such non-reimbursed payment to the rights of the Noteholders against the Issuer under the Trust Deed and the Notes; and
- (b) To the extent that any payment is made by FSA pursuant to the Swap Financial Guarantee and such payment is not otherwise reimbursed by the Issuer in full, FSA shall be fully and automatically subrogated to the extent of such payment to the rights of the Swap Counterparty against the Issuer.”

(H) Condition 5 shall be amended as follows:

- (a) The following language shall be inserted immediately following “Other Creditors” in the second line of the first paragraph thereof:

“(including for the avoidance of doubt FSA, unless an FSA Event of Default has occurred and remains outstanding or unremedied, in which event no consent of FSA shall be required)”;

and
- (b) The following language shall be inserted immediately following “complied with” in the parentheses in the second line of the second paragraph thereof:

“and, unless an FSA Event of Default has occurred, FSA has given its prior consent”.

(I) Condition 6(f) shall be amended by inserting the following language at the end of the paragraph:

“For the avoidance of doubt, any interest which continues to accrue as a result of a payment being improperly withheld or refused after the due date for redemption of the Notes shall not be guaranteed by FSA under the Notes Financial Guarantee.”

- (J) Condition 7(a) shall be amended by inserting the following proviso at the end of paragraph (ii) thereof:

“provided that upon a default in the payment by the Issuer of any principal amounts in respect of the Notes (without taking into account any grace period) which principal amounts constitute Scheduled Principal Payments under the Notes Financial Guarantee, the Maturity Date in respect of each Note shall be delayed until the Business Day immediately following the day on which the Trustee is due to receive the Amounts Demanded pursuant to a Notice of Demand (as defined in the Notes Financial Guarantee) from FSA in accordance with the provisions of the Notes Financial Guarantee.”

- (K) Condition 7(c) shall be deleted in its entirety and replaced with the following:

“(c) Mandatory Redemption:

(i) Following failure to pay under the Swap Financial Guarantee and/or the Notes Financial Guarantee

If:

- (A) FSA has failed to make a timely and full payment of any Amount Demanded (as defined in the Swap Financial Guarantee) under the Swap Financial Guarantee and/or any Amount Demanded (as defined in the Notes Financial Guarantee) under the Notes Financial Guarantee; or
- (B) on or after any day on which an FSA Bankruptcy Event has occurred, either (i) a payment default in respect of principal or interest under the Notes or (ii) an Event of Default (as defined in the Original Securities Prospectus) occurs with respect to the Original Securities (or an equivalent event, howsoever described, occurs with respect to any Eligible Securities),

the Issuer shall then forthwith give notice as soon as reasonably practicable to the Trustee, FSA, the Swap Counterparty, the Calculation Agent and the Noteholders and upon the giving of such notice the Swap will terminate in accordance with its terms (except where the Swap has already been terminated in accordance with Condition 7(d)(iv) below) and the Issuer shall redeem each Note at its nominal amount but subject to Condition 4(b)(I) (*Pre-enforcement Order of Priority*). Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.

(ii) Following events related to the Original Securities and any Eligible Securities

(A) Following an Original Securities Issuer Call:

If the Realised Call Amount is sufficient to pay all Secured Parties in accordance with Condition 4(h)(i)(A), the Issuer shall give notice as soon as reasonably practicable on the Call Proceeds Date to the Trustee, FSA, the Swap Counterparty, the Calculation Agent and the Noteholders and upon the giving of such notice, the Swap shall terminate on the Call Proceeds Date in accordance with its terms and the Issuer shall subsequently redeem the Notes at the Make Whole Redemption Amount but subject to Condition 4(b)(I) (*Pre-enforcement Order of Priority*), on the date falling five Business Days following the Call Proceeds Date. Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.

For the avoidance of doubt, the guarantee provided pursuant to the Notes Financial Guarantee in respect of principal in these circumstances is limited to the nominal amount of the Notes outstanding.

(B) *Following an Original Securities Tax Event:*

If the Notes are to be redeemed in accordance with Condition 4(h)(ii)(C) following an Original Securities Tax Event which obliges the Original Securities Issuer to Gross Up, the Issuer shall give notice as soon as reasonably practicable to the Trustee, FSA, the Calculation Agent, the Swap Counterparty and the Noteholders and the Swap shall terminate on the Tax Proceeds Date in accordance with its terms. The Notes will thereafter be redeemed at their nominal amount but subject to the provisions of Condition 4(b)(l) (*Pre-enforcement Order of Priority*), on a date no later than five Business Days following the Tax Proceeds Date. Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.

For the avoidance of doubt, the redemption and termination payments in such circumstances are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

(C) *Following an Original Securities Index Event:*

If the Notes are to be redeemed following an Original Securities Index Event in accordance with Conditions 4(h)(iii)(C), the Issuer shall give notice as soon as reasonably practicable to the Trustee, FSA, the Calculation Agent, the Swap Counterparty and the Noteholders and the Swap shall terminate on the Index Proceeds Date in accordance with its terms. The Notes will thereafter be redeemed at their nominal amount but subject to the provisions of Condition 4(b)(l) (*Pre-enforcement Order of Priority*), on a date no later than five Business Days following the Index Proceeds Date. Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.

For the avoidance of doubt, the redemption and termination payments in such circumstances are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

(D) *Following an Eligible Securities Issuer Call:*

If the Relevant Proportion of the Notes are to be redeemed following redemption of Affected Call Eligible Securities, as more particularly described in Condition 4(j)(i) (*Eligible Securities Issuer Call*), the Issuer shall give notice as soon as reasonably practicable to the Trustee, FSA, the Calculation Agent, the Swap Counterparty and the Noteholders. Upon the giving of such notice, the Relevant Proportion of the Swap shall terminate on the relevant Eligible Call Proceeds Date in accordance with its terms and the Issuer shall redeem the Notes at the Relevant Proportion of the Make Whole Redemption Amount but subject to Condition 4(b)(l) (*Pre-enforcement Order of Priority*), on a date no later than five Business Days following the Eligible Call Proceeds Date. Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.

For the avoidance of doubt, the guarantee provided pursuant to the Notes Financial Guarantee in respect of principal in these circumstances is limited to the nominal amount of the Notes outstanding.

(iii) FSA Optional Redemption

- (A) Subject to paragraph (B) below, the Issuer shall, as soon as reasonably practicable after, and in any event within five calendar days following, receipt of a FSA Redemption Option Notice (subject always to satisfying the requirements of sub-paragraph (B) below), give a notice of intended redemption to the Noteholders and the Swap Counterparty (the “**Notice of Intended Redemption**”) and shall thereafter redeem the Notes (in whole or in part) on a date (the “**Proposed FSA Redemption Date**”) falling not later than five days (when the Notes are held in a clearing system) or thirty days (when the Notes are not held in a clearing system) after such Notice of Intended Redemption was given at their nominal amount but subject to Condition 4(b)(l) (*Pre-enforcement Order of Priority*). For the avoidance of doubt, any redemption of the Notes, in part shall be required to be in an amount that is an integral multiple of the Tradeable Amount. Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof.
- (B) The Issuer shall not give the Notice of Intended Redemption referred to above unless the Calculation Agent has confirmed to the Trustee that either (I) FSA has deposited funds (if required) with the Trustee in an amount which, together with any amounts held by or on behalf of the Issuer in respect of amounts received or recovered by the Issuer in respect of the realisation of the Securities or otherwise available to the Issuer, are equal to the Redemption Sum (or, as the case may be, the relevant proportion thereof) or (II) FSA has provided an unconditional and irrevocable undertaking to the Issuer and the Trustee to pay the Redemption Sum less amounts otherwise available to the Issuer to the Trustee on or before the applicable redemption date. For the avoidance of doubt, the Calculation Agent shall request the Swap Counterparty to provide the Swap Termination Value in respect of the Proposed FSA Redemption Date to determine the sufficiency of the funds available to the Issuer. The Swap Termination Value shall be calculated on the basis that the Early Termination Date thereunder is a date determined by the Swap Counterparty on or before the Notice of Intended Redemption (in respect of the Proposed FSA Redemption Date and on which date the Swap Counterparty shall terminate the Swap (or, as the case may be, the relevant proportion thereof) in the event that the Notice of Intended Redemption were to be given).

The Trustee shall be entitled to rely without further investigation upon a confirmation, signed by the Calculation Agent, to the effect specified above.

Failure to make any payment due in respect of a mandatory redemption under this Condition 7(c) of any of the Notes or interest thereon shall not constitute an Issuer Event of Default under Condition 10.

(L) Condition 7(d) should be deleted in its entirety and replaced with the following:

“(d) Taxation and Redemption following Swap Termination:

- (i) If the Issuer, on the occasion of the next payment due in respect of the Notes, would be required (A) by the laws of the Republic of Ireland to withhold or account for tax or would suffer tax in respect of its income so that it would be unable to make payment of the full amount due, (B) to reduce payments of principal and/or interest under the Notes pursuant to Condition 4(j)(ii) (*Eligible Securities Tax Event*) following an Eligible Securities Tax Event where additional amounts are not paid in respect of such withholding or deduction on the Eligible Securities or (C) to reduce payments of principal and/or interest under the Notes pursuant to Condition 4(k) (*Deduction or Withholding for Tax in respect of payments under the Swap*) following either an Issuer Swap Tax Event or a Counterparty Swap Tax Event as described therein, (any such event being a “**Tax Event**”), then the Issuer shall so inform the Trustee, and shall use all reasonable endeavours (and, other than in relation to subparagraphs (c) and (d) below, shall continue to use such reasonable endeavours if the Notes are Net Paying (as defined in sub-paragraph (ii) below)) to (a) arrange the substitution of a company incorporated in another jurisdiction approved beforehand in writing by the Trustee and the Substitution Instructing Creditor (provided that such substitution will not at the time of substitution result in any rating assigned to the Notes being adversely affected, as confirmed in writing by Moody’s and Standard & Poor’s) as the principal obligor, (b) change (to the satisfaction of the Trustee and the Substitution Instructing Creditor and provided that such change will not at the time of such change result in any rating assigned to the Notes being adversely affected, as confirmed in writing by Moody’s and Standard & Poor’s) its residence for taxation purposes to another jurisdiction approved beforehand in writing by the Trustee and the Other Creditors, (c) consult with the Noteholders with a view to obtaining a direction by way of Extraordinary Resolution, with the approval of the Swap Counterparty and FSA (such approval not to be unreasonably withheld or delayed), to restructure the Notes to avoid the requirement to make such withholding or deduction or (d) consult with the Noteholders with a view to obtaining a direction by way of Extraordinary Resolution with the approval of the Swap Counterparty and FSA (such approval not to be unreasonably withheld or delayed), to redeem the Notes (in whole but not in part) on an agreed date by way of Cash Settlement or Physical Settlement as directed by such Extraordinary Resolution.

In the event that pursuant to alternative (d) above, the Issuer is directed by an Extraordinary Resolution to redeem the Notes by way of:

- (X) Cash Settlement, then the Calculation Agent on behalf of the Issuer shall procure the sale of the Securities and the net sale proceeds (less any disposal costs thereof) received by the Issuer thereon, together with the Swap Termination Value (if such amount is payable to the Issuer) realised on termination of the Swap, shall be applied in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*) (on the basis that the Notes will be redeemed at their outstanding nominal amount together with interest accrued thereon); or
- (Y) Physical Settlement, then redemption of the Notes will be satisfied:
- (i) if the Extraordinary Resolution directs that Noteholders shall pay the Physical Termination Costs (if any), by delivery of the Payment

Deliverable Amount (as defined below) against payment of an aggregate amount by the Noteholders to the Issuer, or to the Issuer's order, equal to such Physical Termination Costs (provided that if the Physical Termination Costs are a negative amount, such amount shall be deemed to be zero); and

- (ii) if the Extraordinary Resolution directs that the Physical Termination Costs shall be met by a sale of all or part of the Securities, by delivery of the Sale Deliverable Amount (as defined below).

For the avoidance of doubt, the redemption and termination payments in the circumstances described under alternatives (a) to (c) above are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee.

In the event that the Notes are to be redeemed pursuant to alternative (d) above (either by way of Cash or Physical Settlement) and the Securities held by the Issuer at the time of such redemption comprise solely of Original Securities, FSA shall, at the time of such redemption, be obliged to provide a financial guarantee in respect of the scheduled payments of principal of and interest on such Original Securities for the benefit of the holders thereof (an "**Original Securities Financial Guarantee**"). In such circumstances, an Original Securities Financial Guarantee shall be provided by FSA irrespective of whether the Original Securities are being sold on redemption by way of Cash Settlement or being delivered to the Noteholders on redemption by way of Physical Settlement.

In the event that the Notes are to be redeemed pursuant to alternative (d) above (either by way of Cash or Physical Settlement) and the Securities held by the Issuer at the time of such redemption comprise Eligible Securities which are not the Original Securities, FSA shall have the option to provide a financial guarantee in respect of the scheduled payments of principal of and interest on such Eligible Securities for the benefit of the holders thereof, from time to time (an "**Eligible Securities Financial Guarantee**"). In such circumstances, FSA shall notify the Noteholders at the time of giving its approval to such redemption that it wishes to provide an Eligible Securities Financial Guarantee.

If FSA provides either an Original Securities Financial Guarantee or Eligible Securities Financial Guarantee, as the case may be, in accordance with the above, (i) for the purpose of determining the Physical Termination Costs (as defined below) the FSA Make Whole Amount shall rank as a claim pursuant to item (v) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*) and (ii) all of the obligations of the Issuer and FSA pursuant to the Notes Financial Guarantee and the Swap Financial Guarantee and the related Notes Financial Guarantee and Indemnity Agreement and Swap Financial Guarantee and Indemnity Agreement shall be released from the date of redemption of the Notes.

For the avoidance of doubt, if FSA declines its option to provide an Eligible Securities Financial Guarantee on the terms set out above, the redemption and termination payments in such circumstances described under alternative (d) above are not guaranteed under, respectively, the Notes Financial Guarantee or the Swap Financial Guarantee. In such an event, the FSA Make Whole Amount shall rank as a claim pursuant to item (viii) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*).

For the purpose of a redemption by way of Physical Settlement pursuant to alternative (d) above:

“**Clearance System**” means each of Clearstream, Luxembourg and Euroclear.

“**delivery**” means the satisfaction of any obligation of the Issuer to complete all matters necessary to transfer the relevant Securities to the Noteholder and in accordance with all applicable laws. Accordingly, and for the avoidance of doubt, there shall be no obligation on the Issuer to concern itself with any formalities or requirements that shall be placed on the Noteholder as the transferee of the relevant Securities in connection with the acquisition by the Noteholder of the relevant Securities.

“**Notes Factor**” means the quotient of (a) £1,000 and (b) the outstanding nominal amount of Notes immediately prior to redemption by way of Physical Settlement.

“**Payment Deliverable Amount**” means delivery to each Noteholder on the due date for redemption of (1) a pro rata share of the Securities rounded down to the nearest whole number of Securities and (2) a pro rata share of the cash proceeds of the sale of any Securities remaining after the rounding down in (1); plus, where the Physical Termination Costs are a negative amount only, an amount in cash per £1,000 principal amount of Notes held by a Noteholder, equal to the product of the absolute value of the Physical Termination Costs and the Notes Factor.

“**Physical Termination Costs**” means the net amount required (which shall be expressed as a positive amount if payable by the Issuer or a negative amount if receivable by the Issuer) to satisfy the claims of the Secured Parties pursuant to items (i) to (v) (both inclusive) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*) as determined by the Calculation Agent, less the Swap Termination Value (if such amount is payable to the Issuer) realised on termination of the Swap.

“**Sale Deliverable Amount**” means:

- (i) where the Physical Termination Costs are a negative amount, an amount in cash per £1,000 principal amount of Notes held by a Noteholder, equal to the product of the absolute value of the Physical Termination Costs and the Notes Factor, together with delivery to each Noteholder on the due date for redemption of (1) a pro rata share of the Securities rounded down to the nearest whole number of Securities and (2) a pro rata share of the cash proceeds of the sale of any Securities remaining after the rounding down in (1); and
- (ii) where the Physical Termination Costs are a positive amount, delivery to each Noteholder of (1) a pro rata share of the Securities remaining after the Issuer has sold (or procured the sale of) such number of the Securities as is necessary to first pay in full any Physical Termination Costs owed to the Secured Parties pursuant to items (i) to (v) (both inclusive) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*) as determined by the Calculation Agent, rounded down to the nearest whole number of Securities and (2) a pro rata share of any cash proceeds of the sale of any Securities remaining after the rounding down in (1) together with a pro rata share of any cash outstanding after payment of the Physical Termination Costs (if any).

“**Settlement Disruption Event**” means an event beyond the control of the Issuer and the relevant Noteholder as a result of which the Clearance System cannot clear

transfers of the Securities comprising the Payment Deliverable Amount or Sale Deliverable Amount of such Noteholder, as the case may be.

References herein to a pro rata share of the Securities or a pro rata share of the cash amount shall in respect of any Noteholder be construed as references to that proportion of Securities or cash equal to the proportion of the outstanding nominal amount of Notes which are held by such Noteholder.

Delivery of any Securities to which a Noteholder is entitled shall be made in accordance with the instructions of the relevant Noteholder set out in a delivery notice (a "**Delivery Notice**") specifying an account in the Clearance System for delivery of Securities (in or substantially in the form which is available at the specified office of each of the Issuing and Paying Agent). The Issuer shall procure that upon presentation and surrender of a Note pursuant to this paragraph the Issuing and Paying Agent shall issue to the holder thereof a receipt in respect of such Note. The Notes shall cease to be outstanding on the first day on or after the settlement date upon which the Issuer makes the relevant Securities available for delivery in accordance with these Conditions. If there is a Settlement Disruption Event (as defined above) that prevents settlement on the settlement date, then settlement shall be on the first succeeding day on which settlement can take place through the Clearance System unless a Settlement Disruption Event prevents settlement on each day that the Clearance System is (or, but for the Settlement Disruption Event, would have been) open for business during the period ending 30 calendar days after the original date on which, but for the Settlement Disruption Event, settlement would have occurred. If settlement does not occur during such 30 calendar day period, the Issuer shall use all reasonable efforts to deliver the Securities comprising the Payment Deliverable Amount or Sale Deliverable Amount of each Noteholder, as the case may be, promptly thereafter to a nominee selected by the Trustee.

- (ii) If the Issuer is unable to achieve any of the alternatives set out in (a) to (d) above, the Issuer shall deduct such taxes from the amounts payable (at which point the Notes shall be "**Net Paying**") to the relevant Noteholder and the Notes shall not be redeemed. Any such deduction shall not constitute an Issuer Event of Default under Condition 10. In such event, the Notes Financial Guarantee shall continue to be in effect but shall only apply to the extent of such reduced payment obligations of the Issuer, as more particularly described in the Notes Financial Guarantee.
- (iii) If following the occurrence of an FSA Event of Default, the Swap is terminated in whole for any reason (excluding the reason set out in sub-paragraph (iii) below), then the Issuer shall forthwith give notice as soon as is reasonably practicable to the Trustee, the Noteholders, and the Swap Counterparty and upon the giving of such notice all but not some only of the Notes shall become due for redemption on the date specified in such notice at their nominal amount but subject to the provisions of Condition 4(b)(1) (*Pre-enforcement Order of Priority*). Interest shall continue to accrue on the nominal amount of Notes being redeemed until the due date for redemption thereof. In the event of the Notes becoming due for redemption and the Security becoming enforceable, the Trustee shall take such action as is provided in Condition 4(d).
- (iv) If the Swap is terminated in whole in circumstances where an FSA Event of Default has not occurred at the time of such termination and otherwise than as a result of Part 5(b)(i) of the Schedule to the Master Agreement, the Notes shall not be

redeemed until the earlier to occur of (a) the Maturity Date, (b) a Mandatory Redemption Event pursuant to Condition 7(c)(i)(A) above and (c) FSA having exercised the FSA Redemption Option in accordance with Condition 7(c)(iii) above.

(M) Condition 7(f) shall be deleted in its entirety and replaced with the following:

“(f) Noteholders’ Option

- (I) If Put Option is specified as being applicable in respect of the Notes, upon the occurrence of an Original Securities Issuer Call which (i) does not trigger a Mandatory Redemption of the Notes at the Make Whole Redemption Amount in accordance with Condition 7(c)(ii)(A) but (ii) provides a Realised Call Amount sufficient to pay in full the claims of all Secured Parties pursuant to items (i) to (vii) (both inclusive) in accordance with Condition 4(b)(I) (*Pre-enforcement Order of Priority*), such that each Note will be redeemed at an amount greater than or equal to its nominal amount but less than the Make Whole Redemption Amount (the **“Estimated Redemption Amount”**), the Issuer shall or shall procure that, as soon as reasonably practicable following notice of the Estimated Redemption Amount from the Calculation Agent (and, in any event at least five Business Days prior to the Call Proceeds Date), a notice (the **“Option Notice”**) is given to the Noteholders in accordance with Condition 15 (*Notices*).
- (II) The Option Notice shall:
 - (A) specify that an Original Securities Issuer Call has occurred;
 - (B) give details of the Exercise Period (as defined below) during which the Noteholders’ Option (as defined below) may be exercised (which option, for the avoidance of doubt, may be exercised by all or any of the Noteholders (subject to sub-paragraph (V) below) but must be exercised by a Noteholder in respect of its total holding);
 - (C) specify the Estimated Redemption Amount; and
 - (D) specify the date upon which the Notes will be redeemed upon the exercise of the Noteholders’ Option, which date shall be not less than three Business Days after the expiry of the Exercise Period or such later date as may be agreed by the Issuer, Swap Counterparty and FSA (to the extent that an FSA Event of Default has not occurred and is not continuing (unless it has otherwise been waived or cured to the satisfaction of the Trustee)) and notified to the Noteholders (the **“Put Option Redemption Date”**).
- (III) The Estimated Redemption Amount shall be determined by the Calculation Agent in consultation with FSA (provided that an FSA Event of Default has not occurred and is not continuing (unless it has otherwise been waived or cured to the satisfaction of the Trustee)) as soon as practicable following the occurrence of the Original Securities Issuer Call and notified to the Issuer at least ten Business Days prior to the Call Proceeds Date. The Estimated Redemption Amount shall be an indicative amount per Note only and shall not be binding on the Issuer. In calculating the Estimated Redemption Amount, the Calculation Agent shall assume that the Noteholders’ Option will be exercised in respect of 100 per cent. of the aggregate outstanding nominal amount of the Notes.
- (IV) Following publication of the Option Notice, the Noteholders shall, acting by a majority, have the option (the **“Noteholders’ Option”**) to require the Issuer to

redeem the Notes at the Final Put Redemption Amount (as defined below) (subject to sub-paragraph (VI) below) on the Put Option Redemption Date, as set out below. The Noteholders' Option may be exercised at any time during the period (the "**Exercise Period**") from (and including) the date on which the Option Notice is published by the Issuer to (and including) the date falling five Business Days thereafter. Following the expiry of the Exercise Period, the Issuer will promptly give notice to the Noteholders in accordance with Condition 15 (*Notices*), the Calculation Agent, FSA and the Trustee as to the extent to which the Noteholders' Option has been duly exercised in accordance with sub-paragraph (V) below and confirm the Put Option Redemption Date. In the event that the Put Option Redemption Date falls after the Call Proceeds Date, the Issuer shall invest the Call Proceeds in the Cash Account until the Put Option Redemption Date.

- (V) In the event that Noteholders holding more than 50 per cent. of the aggregate outstanding nominal amount of the Notes exercise the Noteholders' Option, all outstanding Notes shall be redeemed at the Final Put Redemption Amount (subject to sub-paragraph (VI) below) on the Put Option Redemption Date. In the event that Noteholders holding 50 per cent. or less of the aggregate outstanding nominal amount of the Notes exercise their Noteholders' Option, no Notes may be redeemed pursuant to this Condition 7(f) (*Noteholders' Option*), provided that this shall not prevent FSA exercising its FSA Redemption Option in accordance with Condition 7(c)(iii) (*FSA Optional Redemption*).
- (VI) In the event that the Final Put Redemption Amount (as defined below) would be less than the outstanding nominal amount and interest accrued to the date of redemption, the Swap shall not be terminated and no Notes may be redeemed pursuant to this Condition 7(f) (*Noteholders' Option*), provided that this shall not prevent FSA exercising its FSA Redemption Option in accordance with Condition 7(c)(iii) (*FSA Optional Redemption*). The final redemption amount per Note (the "**Final Put Redemption Amount**") shall be calculated by the Calculation Agent in consultation with FSA as soon as reasonably practicable after the expiry of the Exercise Period and shall be notified to the Issuer by the Calculation Agent on or before the Put Option Redemption Date. In calculating the Final Put Redemption Amount, the Calculation Agent shall have regard to the actual Call Proceeds received by the Issuer, to the Swap Termination Value that would be payable to or due from the Issuer if the Swap were to be terminated on the Put Option Redemption Date and to the amounts that would be owing to the Secured Parties pursuant to items (i) to (vii) (both inclusive) of Condition 4(b)(I) (*Pre-enforcement Order of Priority*) in the event that the Notes were so redeemed.

The Final Put Redemption Amount may be less than the Estimated Redemption Amount.

- (VII) The Final Put Redemption Amount shall (in the absence of wilful default, negligence or bad faith) be binding on the Issuer, the Trustee, the Principal Paying Agent and the Noteholders and (in the absence of wilful default, negligence or bad faith) no liability to the Issuer, the Trustee, the Principal Paying Agent or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions."
- (N) All references in the Base Conditions to "Events of Default" or "Events of Default under Condition 10" shall be read as references to "Issuer Events of Default" or "Issuer Events of Default under Condition 10" respectively.

- (O) Condition 10 shall be deleted in its entirety and replaced with the following:

“Issuer Events of Default

If any of the following events (“**Issuer Events of Default**”) occurs the Trustee (I) shall, if directed to do so by FSA and an FSA Event of Default has not occurred and is not continuing (unless it has otherwise been waived or cured to the satisfaction of the Trustee) or (II) at its discretion following an FSA Event of Default may, and if so requested by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (provided in each case that the Trustee shall have been indemnified to its satisfaction), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their nominal amount but subject to the provisions of Condition 4(b)(II) (*Post-enforcement Order of Priority*):

- (a) default is made for more than 14 days in the payment of any sum due in respect of any Note; or
- (b) the Issuer does not perform or comply with any one or more of its other obligations under the Notes, the Swap, the Notes Financial Guarantee and Indemnity Agreement, the Swap Financial Guarantee and Indemnity Agreement, the Financial Guarantee Fee Letter or the Trust Deed, which default is incapable of remedy or, if in the opinion of the Trustee as directed by the Substitution Instructing Creditor capable of remedy, is not in the opinion of the Trustee remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee and, in each case, that the Trustee considers such a default to be materially prejudicial to the interests of the Noteholders, the Swap Counterparty or FSA, as applicable; or
- (c) any order shall be made by any competent court or any resolution passed for the winding-up, examination or dissolution of the Issuer or the appointment of an examiner, liquidator or similar official in relation to the Issuer save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms previously approved in writing by the Trustee as directed by the Substitution Instructing Creditor; or
- (d) if the Issuer ceases or threatens to cease to carry on the whole or substantially the whole of its business in respect of the relevant Series of Notes, save for the purposes of reorganisation on terms previously approved in writing by the Trustee and FSA (to the extent that an FSA Event of Default has not occurred and is not continuing (unless it has otherwise been waived or cured to the satisfaction of the Trustee)), or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (e) if (i) proceedings are initiated against the Issuer under any applicable liquidation, examination, insolvency, composition, reorganisation or other similar laws or an application is made or documents filed with a court for the appointment of an administrative or other receiver, manager, examiner, administrator or other similar official, or an administrative or other receiver, manager, examiner, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed

following presentation of a petition for an administration order) unless initiated by the relevant company, is not discharged within 14 days; or

- (f) if the Issuer (or its respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, examination, insolvency, court protection, examinership, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).”

(P) Condition 11 shall be amended as follows:

- (i) Inserting the following language at the beginning thereof:

“Irrespective of whether or not the Notes have been accelerated or upon payment being made by FSA under the Swap Financial Guarantee and/or the Notes Financial Guarantee,”;

- (ii) Deleting “Only” in the first line thereof and replacing it with “only”;

- (iii) Inserting the following language after “Trust Deed” in the first line thereof:

“(and shall if directed to do so by the Instructing Creditor (subject to being indemnified to its satisfaction))”; and

- (iv) Inserting “, FSA” after “Custodian” in the second line thereof.

(Q) Condition 12 shall be amended by the insertion of a new paragraph (e) as set forth below:

“(e) **Entitlement of FSA:** To the extent that no FSA Event of Default shall have occurred and be continuing (unless it has been waived or cured to the satisfaction of the Trustee), paragraphs (a) to (d) above shall be subject to the following:

- (i) FSA shall have the right to give requests or directions to the Trustee and to vote at meetings of the Noteholders as if it were the holder of 100 per cent. of the then aggregate outstanding nominal amount of the Notes to the exclusion of any right which the Noteholders would otherwise have to vote or to direct the Trustee (except as provided below). For so long as such provisions apply, for the purposes of determining whether or not a request or direction has been given by a holder of not less than the required percentage in aggregate outstanding nominal amount of the Notes or whether any meeting of the Noteholders is quorate and for counting votes cast at any such meeting of the Noteholders, FSA shall be treated as the holder of 100 per cent. of the then aggregate outstanding nominal amount of the Notes; and
- (ii) in respect of a meeting of the holders of the Notes, FSA shall not be required to attend such meeting but may instead deliver written instructions to the Trustee as to its vote on each of the items in the relevant notice not fewer than five Business Days prior to such meeting.

Notwithstanding anything to the contrary in this Condition 12 (*Meetings of Noteholders, Modification, Waiver and Substitution*), in circumstances where the Noteholders have the right to vote on any Entrenched Rights in respect thereof or in respect of Reserved Matters, FSA shall not have the right to vote or direct the Trustee as if it were the holder of 100 per cent. of the aggregate outstanding nominal amount of the Notes and an Extraordinary Resolution of Noteholders shall be binding on the Issuer.

- (R) Condition 14 (*Further Issues*) shall be deleted in its entirety and replaced with the following:

“The Issuer may from time to time without the consent of the Noteholders or Couponholders (but subject to Condition 5, Rating Agency Confirmation and, with respect to Further Fungible Notes (as defined below) only, the prior written consent of the Swap Counterparty and FSA), create and issue further notes either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the Notes (such further notes, the “**Further Fungible Notes**”) or upon such terms as the Issuer may determine at the time of their issue. Any Further Fungible Notes shall only form a single issue with the Notes (unless otherwise approved by an Extraordinary Resolution) if the Issuer provides additional assets as security for such further notes which are fungible with, and have the same proportionate composition as, those forming part of the Mortgaged Property for the Notes and in the same proportion that the nominal amount of such new notes bears to the Notes and the Issuer enters into, or has the benefit of, additional or supplemental Financial Guarantees (including an additional or supplemental Note Financial Guarantee), Swaps and Securities Agreements extending the terms of any Financial Guarantees, Swaps and Securities Agreements to the new notes on terms no less favourable than such existing documents and agreements. Any new notes forming a single series with the Notes shall be constituted and secured by a deed supplemental to the Trust Deed, such further security shall be added to the Mortgaged Property so that the new notes and the existing Notes shall be secured by the same Mortgaged Property and references in these Conditions to “**Notes**”, “**Collateral**”, “**Mortgaged Property**”, “**Financial Guarantees**”, “**Swaps**”, “**Contracts**”, “**Securities Agreements**”, “**Obligations**”, “**Other Obligations**”, “**Creditors**” and “**Other Creditors**” shall be construed accordingly. Upon the further issue of an unrated Series of Notes, each of Moody’s and Standard & Poor’s will confirm in writing to the Issuer that each outstanding Series of Notes rated by each or either of them will not be adversely affected by the further issue of such unrated Series of Notes. The Trust Deed contains provisions for convening a single meeting of the holders of the Notes and the holders of notes of other specified series in certain circumstances where the Trustee so decides.”

- (S) A new Condition 19 shall be inserted containing additional definitions for the purpose of the Notes as follows:

“In these Conditions:

“**Affected Call Eligible Securities**” means Eligible Securities in respect of which the issuer thereof has exercised a call option to redeem such Eligible Securities in whole or in part.

“**Affected Eligible Securities**” means Affected Call Eligible Securities or Affected Tax Eligible Securities, as the case may be.

“**Affected Tax Eligible Securities**” means Eligible Securities where the issuer is domiciled in the United Kingdom.

“**Affiliate**” has the meaning given to such term in Section 14 of the Master Agreement.

“**Benchmark Gilts**” means, from time to time, gilts that are not listed as “rump gilts” in the list of gilts in issue published by the United Kingdom Debt Management Office.

“**Cash Account**” means the account of the Issuer maintained with the Custodian pursuant to the Trust Deed with account number 322126 or any replacement account therefor.

“**Eligible Securities**” means (l) (x) any new securities issued in substitution for and replacement of the Original Securities pursuant to condition 5(c)(iii) of the terms and conditions of the Original Securities; or (y) any new securities issued by the Original Securities Issuer which are substituted

for the Original Securities pursuant to condition 5(d) of the terms and conditions of the Original Securities, or (II) investments (a) in respect of which all payments of principal, premium and interest are to be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected and (b) which fall under the following categories:

(A)

- (i) cash in the form of demand or time deposits; or
 - (ii) obligations issued or guaranteed by the United Kingdom or any Sovereign Agency (as defined in sub-paragraph (B)(i)(b) below) thereof (“**UK Government Securities**”); or
 - (iii) certificates of deposit or commercial paper in respect of which the issuer thereof has a short-term debt credit rating of at least one of the following two ratings: A-1 from Standard & Poor’s and P-1 from Moody’s; or
 - (iv) other obligations in respect of which the issuer thereof has a short-term debt credit rating of at least one of the following two ratings: A-1 from Standard & Poor’s and P-1 from Moody’s; or
 - (v) Bonds (as defined in the terms and conditions set out in the Original Securities Prospectus) and any other bonds of the Original Securities Issuer issued pursuant to the terms and conditions set out in the Original Securities Prospectus, in each case, other than in circumstances where a Securities Default has occurred and is continuing; or
 - (vi) any investments which the Original Securities Issuer is permitted to make pursuant to the terms and conditions set out in the Original Securities Prospectus; or
 - (vii) any Eligible GIC; or
 - (viii) any Eligible Guarantee,
- (together, A(i) to A(viii) are referred to as the “**List A Eligible Securities**”);

(B)

- (i) obligations with at least one of the following two ratings: AAA by Standard & Poor’s and Aaa by Moody’s, issued or guaranteed by:
 - (a) any state, political subdivision or government (a “**Sovereign**”); or
 - (b) any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign (each a “**Sovereign Agency**”); or
 - (c) any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development; or
 - (ii) any Eligible GIC; or
 - (iii) any Eligible Guarantee,
- (together, B(i) to B(iii) are referred to as the “**List B Eligible Securities**”);

(C)

- (i) any obligation with ratings of no lower than at least one of the following ratings: A- by Standard & Poor's and A3 by Moody's; or
- (ii) any Eligible GIC; or
- (iii) any Eligible Guarantee,

(together, C(i) to C(iii) are referred to as the "**List C Eligible Securities**"),

(D)

- (i) any senior secured or senior unsecured obligations of UK utility operating companies, licensed and regulated to operate:
 - (a) gas transmission and/or distribution assets in (or between the countries of) the United Kingdom;
 - (b) electricity transmission and/or distribution assets in (or between the countries of) the United Kingdom; or
 - (c) assets used in the storage and/or treatment and/or carriage of drinking and/or waste water in England and Wales; or
- (ii) any Eligible GIC; or
- (iii) any Eligible Guarantee,

(together, D(i) to D(iii) are referred to as the "**List D Eligible Securities**"); and

(E)

- (i) any guaranteed investment contracts issued by FSA (other than Eligible GICs);
- (ii) any obligation that is guaranteed by FSA (other than Eligible Guarantees); or
- (iii) any other obligation that may be consented to by the Counterparty,

(together, E(i) to E(iii) are referred to as the "**List E Eligible Securities**").

"Eligible Securities List" means any one of the following lists of Eligible Securities, as the context may require: List A Eligible Securities, List B Eligible Securities, List C Eligible Securities, List D Eligible Securities and/or List E Eligible Securities.

"Eligible GIC" means a guaranteed investment contract provided by FSA or any Affiliate of FSA in respect of which (a) the Underlying Assets are themselves Eligible Securities satisfying the relevant Eligible Securities List within which such guaranteed investment contract is to fall, (b) the Underlying Assets have been disclosed to the Issuer and the Swap Counterparty and (c) the custody arrangements and the security and collateral arrangements of the Underlying Assets forming such guaranteed investment contract meet the criteria set out in the Trust Deed.

"Eligible Guarantee" means a guarantee provided by FSA or any Affiliate of FSA in respect of which the Underlying Assets are themselves Eligible Securities satisfying the relevant Eligible Securities List within which such guarantee is to fall.

"Entrenched Right" has the meaning given to such term in the Supplemental Trust Deed.

"Financial Guarantee Fee" means the guarantee fees payable by the Issuer to FSA in consideration of the issue of the Notes Financial Guarantee and the Swap Financial Guarantee as provided in the Financial Guarantee Fee Letter.

“Financial Guarantee Fee Letter” means the letter (described on its face as “Financial Guarantee Fee Letter”) dated on or about 27 September 2005 between FSA and the Issuer.

“FSA Bankruptcy Event” has the meaning set out in paragraphs (c) and (d) of the definition of “FSA Notes Default”.

“FSA Entrenched Right” has the meaning given to such term in the Supplemental Trust Deed.

“FSA Event of Default” means either an FSA Notes Default or an FSA Swap Default.

“FSA Indemnity Amounts” shall mean all amounts payable by the Issuer to FSA pursuant to the Indemnification Agreement or otherwise in respect of the Swap Financial Guarantee and the Notes Financial Guarantee other than amounts representing the Financial Guarantee Fee and FSA Make Whole Amount.

“FSA Make Whole Amount” means the sum of the present value of the future premia that would have been payable by the Issuer to FSA following the date of redemption of the Notes in respect of the provision of the Financial Guarantees had the Notes not been so redeemed, as determined by the Calculation Agent and as further defined in the Financial Guarantee Fee Letter.

“FSA Notes Default” means, with respect to FSA under the Notes Financial Guarantee:

- (a) any relevant amounts due for payment in respect of Scheduled Payments by FSA under the Notes Financial Guarantee are not paid by FSA within two Business Days of the date stipulated in the Notes Financial Guarantee;
- (b) FSA disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Notes Financial Guarantee or seeks to do so;
- (c) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including an administrative receiver or manager) of FSA (or, as the case may be, of a material part of its property or assets); or
- (d) FSA:
 - (i) presents any petition or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of FSA (or, as the case may be, a material part of its property or assets); or
 - (ii) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
 - (iii) becomes unable to pay its debts within the meaning of Section 123(2) or Section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due.

“FSA Put Notice” means a notice given in writing given by FSA (provided that an FSA Event of Default has not occurred and is not continuing) to the Issuer and Trustee, with a copy to the Swap Counterparty directly to the Issuer to exercise its put option pursuant to Condition 5(e) of the terms and conditions of the Original Securities.

“FSA Redemption Option” means at any time :

- (A) following (1) an Original Securities Issuer Call in respect of which the relevant Realised Call Amount is insufficient to trigger a Mandatory Redemption of the Notes in accordance with Condition 7(c)(ii)(A), provided that the Noteholder’s Option pursuant to Condition 7(f) has

not been exercised in respect of the Notes outstanding (or a redemption of any Affected Call Eligible Securities pursuant to an equivalent provision in respect of such Affected Call Eligible Securities) or (2) following an Original Securities Default (or an event of default in respect of any Eligible Securities) or (3) following an Original Securities Bondholder Put described in Condition 4(h)(iv) or (4) the termination in whole of the Swap by reason of a Swap Counterparty Event of Default; and

(B) provided that the Security has not been enforced,

the right of FSA (provided that an FSA Event of Default has not occurred and is not continuing) to require the Issuer to redeem the Notes in whole or in part (in an amount equal to an integral multiple of the Tradeable Amount).

“FSA Redemption Option Notice” means a notice in writing given by FSA to the Issuer and the Trustee, with a copy to the Swap Counterparty and the Principal Paying Agent, exercising a FSA Redemption Option.

“FSA Reserved Matter” has the meaning given to such term in the Supplemental Trust Deed.

“FSA Swap Default” means, with respect to FSA under the Swap Financial Guarantee:

- (a) any relevant amounts due for payment in respect of Scheduled Payments by FSA under the Swap Financial Guarantee are not paid by FSA within two Business Days of the date stipulated in the Swap Financial Guarantee;
- (b) FSA disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Swap Financial Guarantee or seeks to do so;
- (c) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding-up, or the appointment of an administrator or receiver (including an administrative receiver or manager) of FSA (or, as the case may be, of a material part of its property or assets); or
- (d) FSA:
 - (i) presents any petition or takes any proceedings for the winding-up or the appointment of an administrator or receiver (including an administrative receiver or manager) of FSA (or, as the case may be, a material part of its property or assets); or
 - (ii) makes or enters into any general assignment, composition, arrangement (including, without limitation, a voluntary arrangement under Part 1 of the Insolvency Act 1986) or compromise with or for the benefit of any of its creditors; or
 - (iii) becomes unable to pay its debts within the meaning of Section 123(2) or Section 123(1)(e) of the Insolvency Act 1986 or admits in writing its inability, or fails generally, to pay its debts as they become due.

“Indemnification Agreement” means the indemnification agreement dated 27 September 2005 made between the Issuer and FSA.

“Instructing Creditor Direction” shall mean a direction in writing by the Instructing Creditor.

“Instructing Creditor” means FSA, unless and until an FSA Event of Default has occurred and is continuing (and has not otherwise been waived or cured to the satisfaction of the Trustee), in which case the Instructing Creditor shall be the Swap Counterparty unless no amounts are thereafter owing to the Swap Counterparty, in which case, the Instructing Creditor shall be one or more Noteholders holding in aggregate no less than $66\frac{2}{3}$ per cent. of the outstanding Notes.

“Investment Grade Ratings” means obligations which have both of the following ratings: BBB- or higher by Standard & Poor’s and Baa3 or higher by Moody’s.

“Investment Guidelines” means investments to which the Substitution Instructing Creditor consents or that meet the following criteria:

- (a) the maturity of any Securities (other than any List A Eligible Securities, except (A) any Bonds (as defined in the Original Securities Prospectus) and (B) gilts which are not Benchmark Gilts or the Reference Stock (as defined in the Original Securities Prospectus)) falls no longer than one year after the scheduled maturity date of the Securities;
- (b) Eligible Securities must have a scheduled interest payment date falling due within the one-year period immediately following such investment;
- (c) with the exception of cash in the form of demand or time deposits, UK Government Securities or any other bonds of the Original Securities Issuer issued pursuant to the terms and conditions set out in the Original Securities Prospectus (other than in the circumstances where a Securities Default has occurred or is continuing), the maximum investment permitted in a single issuer shall not exceed £50,000,000 (indexed on the same basis as provided in Condition 8 of the terms and conditions of the Original Securities);
- (d) at the time of purchase of any Eligible Securities, such Eligible Securities must have an Investment Grade Rating and as a result of such purchase, no more than 20 per cent. of the value, as determined by the Calculation Agent in consultation with FSA, of Eligible Securities (including the asset being purchased) may be rated (or, in the case of an Eligible GIC or, as the case may be, an Eligible Guarantee, of all the Underlying Assets may be rated) below one of the following two ratings of A- by Standard & Poor’s and A3 by Moody’s; and
- (e) if the Eligible Securities are either a guaranteed investment contract or a guarantee (other than a guaranteed investment contract issued by FSA comprising part of the List E Eligible Securities), the guaranteed investment contract is an Eligible GIC or, as the case may be, the guarantee by FSA is an Eligible Guarantee and in each case can be validly entered into by the Issuer.

“Make Whole Redemption Amount” with respect to each Note shall mean 105 per cent. of the outstanding nominal amount of such Note together with interest accrued thereon.

“Notes Financial Guarantee” means the financial guarantee dated 27 September 2005 issued by FSA pursuant to the Notes Financial Guarantee and Indemnity Agreement in favour of the Trustee for the benefit of the Noteholders.

“Notes Financial Guarantee and Indemnity Agreement” means the financial and guarantee and indemnity agreement dated 27 September 2005.

“Original Securities Default” means, in respect of the Original Securities, an “Event of Default” as defined in Condition 9 of the terms and conditions of the Original Securities.

“Original Securities Prospectus” means the Prospectus dated 22 September 2005 for the £150,000,000 2.033 per cent. Index-Linked Guaranteed Bonds due 2036 of the Original Securities Issuer.

“outstanding” means, in relation to the Notes, all the Notes other than:

- (a) those Notes to the extent that they shall have been redeemed in part pursuant to the Conditions;

- (b) those Notes which have been redeemed in full pursuant to the Conditions;
- (c) those Notes in respect of which the date for redemption in accordance with these Conditions has occurred and the redemption moneys (including all interest (if any) payable thereon) have been duly paid to the Trustee and/or the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the Noteholders in accordance with Condition 15 (*Notices*)) and remain available for payment against presentation of the Securities;
- (d) those Notes which have been purchased and cancelled in accordance with Condition 7 (*Redemption Purchase and Options*);
- (e) those Notes in respect of which claims have become void under Condition 9 (*Prescription*);
- (f) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 13 (*Replacement of Notes, Certificates, Receipts, Coupons and Talons*);
- (g) (for the purpose only of ascertaining the nominal amount of the Notes outstanding and without prejudice to the status for any other purpose of the Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 13 (*Replacement of Notes, Certificates, Receipts, Coupons and Talons*); and
- (h) any Temporary Global Note to the extent that it shall have been exchanged for Notes in definitive form or a Permanent Global Note and any Permanent Global Note to the extent that it shall have been exchanged for Notes in definitive form in each case pursuant to its provisions; and

PROVIDED THAT for each of the following purposes, namely:

- (1) the right to attend and vote at any meeting of the Noteholders or any of them, an Extraordinary Resolution in writing as envisaged by the Trust Deed and any direction or request by the Noteholders;
- (2) the determination of how many and which Notes are for the time being outstanding for the purposes of Conditions 10 (*Issuer Events of Default*) and 11 (*Enforcement*);
- (3) any discretion, power or authority (whether contained in the Trust Deed or vested by operation of law) which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders or any of them; and
- (4) the determination by the Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held by, for the benefit of, or on behalf of, the Issuer, the Swap Counterparty, FSA or any Subsidiary of the Issuer, the Swap Counterparty or FSA shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

“Rating Agency Confirmation” means the notification of the relevant event to the Rating Agency and confirmation from the Rating Agency that there has been no adverse change to the credit rating granted by such Rating Agency in respect of the Notes.

“Redemption Sum” means in respect of any time FSA exercises the FSA Redemption Option, an amount equal to the amounts necessary to pay items (i) to (vi) (both inclusive) of Condition 4(b)(I) (*Pre-enforcement Order of Priority*) (assuming for this purpose that the Notes will be redeemed at their nominal amount).

“Relevant Proportion” means, on any date, an amount (expressed as a percentage) determined by the Calculation Agent to be equal to the quotient of (a) the market value of the relevant Eligible Securities being redeemed pursuant to Condition 7(c)(ii)(D) (*Mandatory Redemption Following an Eligible Securities Issuer Call*) determined on such date and (b) the market value of all Securities held by the Issuer on such date.

“Reserved Matter” has the meaning given to such terms in the Supplemental Trust Deed.

“Securities Default” means, in respect of any of the Securities, an “Event of Default” as defined in the terms and conditions of such Securities.

“Subsidiary” means any company which is for the time being a subsidiary (within the meaning of Section 736 of the Companies Act 1985 of Great Britain) or a subsidiary undertaking (within the meaning of Section 258 and Schedule 10A of the Companies Act 1985 of Great Britain).

“Substitution Instructing Creditor” means FSA, unless and until an FSA Event of Default has occurred and is continuing (and has not otherwise been waived or cured to the satisfaction of the Trustee) remains outstanding or unremedied, in which case the Substitution Instructing Creditor shall be the Swap Counterparty.

“Swap Adjustment” means, on any day, as determined by the Swap Counterparty in its sole and absolute discretion, an adjustment to the terms of the Swap of any type as agreed between the Issuer and the Swap Counterparty, with the approval of FSA (such approval not be unreasonably withheld or delayed).

“Swap Counterparty Event of Default” means an Event of Default (as defined in the Swap) with respect to the Swap Counterparty.

“Transaction Documents” means the Notes, the Trust Deed, the Agency Agreement (to the extent it relates to the Notes), the Swap, the Swap Financial Guarantee and Indemnity Agreement, the Notes Financial Guarantee and Indemnity Agreement, the Swap Financial Guarantee, the Notes Financial Guarantee, the Financial Guarantee Fee Letter, the Dealer Agreement (to the extent it relates to the Notes) and the Indemnification Agreement.

“Underlying Assets” means the assets and/or obligations in respect of which a guaranteed investment contract is issued by FSA or, as the case may be, in respect of which FSA provides a guarantee.”

ANNEX TO THE TERMS AND CONDITIONS — DESCRIPTION OF SWAP

Cashflows

Pursuant to the Swap, the Issuer has agreed to pay to the Swap Counterparty (i) on or promptly following the interest payment dates in respect of the Securities held by the Issuer from time to time, amounts equal to the interest payments payable in respect of such Securities on such interest payment dates, less an amount in respect of the premium payable by the Issuer to FSA in respect of the Financial Guarantees and (ii) provided that the Swap has not been terminated prior to its Termination Date (as defined therein), on or promptly following the maturity date of the Securities held from time to time, any proceeds receivable on redemption of such Securities.

Against such payments by the Issuer, the Swap Counterparty has agreed to pay to the Issuer (i) on or prior to the Interest Payment Dates in respect of the Notes, amounts equal to the interest amounts payable in respect of the Notes together with certain additional amounts and (ii) provided that the Swap has not been terminated prior to its Termination Date, amounts equal to the Final Redemption Amount in respect of each of the Notes on the Maturity Date thereof.

The “**Termination Date**” in respect of the swap transaction evidenced by the Confirmation terminates shall be the Maturity Date of the Notes, unless terminated earlier in accordance with the terms of the Swap.

On the Effective Date of the Swap, the Swap Counterparty shall pay to the Issuer an Initial Exchange Amount equal to £400,000.

Governing law

The Swap is governed by and construed in accordance with the laws of England and Wales.

Early Termination

The Swap Counterparty has the benefit of the Swap Financial Guarantee which has been issued by FSA pursuant to the Swap Financial Guarantee and Indemnity Agreement.

The Swap may be terminated early, (either in whole or, in certain circumstances, in part only) under certain circumstances, including:

- (a) automatically on the Deemed Termination Date (as defined below) following the giving by or on behalf of the Issuer of a notice of redemption in whole or in part under the Notes prior to their scheduled Maturity Date;
- (b) at the option of FSA (provided an FSA Event of Default has not occurred and is not continuing (unless it has been waived or cured to the satisfaction of the Trustee)), if there is an Event of Default where the Issuer is the Defaulting Party or a Termination Event where the Issuer is the Affected Party or if there is a failure of the Swap Counterparty to pay any amounts due under the Swap;
- (c) automatically if an Event of Default has occurred in respect of the Issuer under the Swap and an FSA Event of Default has also occurred;
- (d) upon the occurrence of certain other events.

For such purpose, “**Deemed Termination Date**” means, in respect of a notice of redemption under the Notes following:

- (I) an Original Securities Issuer Call where the Realised Call Amount is sufficient to pay all Secured Parties in accordance with Condition 4(h)(i)(A) (*Exercise of the Original Securities Issuer Call*) of the Notes and the Notes are being redeemed pursuant to Condition 7(c)(ii)(A) (*Mandatory Redemption Following an Original Securities Issuer Call*), the related Call Proceeds Date;
- (II) an Original Securities Tax Event where the Notes are being redeemed pursuant to Condition 7(c)(ii)(B) (*Mandatory Redemption Following an Original Securities Tax Event*), the related Tax Proceeds Date;
- (III) an Original Securities Index Event where the Notes are being redeemed pursuant to Condition 7(c)(ii)(C) (*Mandatory Redemption Following an Original Securities Index Event*), the related Index Proceeds Date;
- (IV) an Eligible Securities Issuer Call where the Relevant Proportion of the Notes are being redeemed pursuant to Condition 7(c)(ii)(D) (*Mandatory Redemption Following an Eligible Securities Issuer Call*), the related Eligible Call Proceeds Date; and
- (V) with respect to any other redemption event in accordance with Condition 7(c) (including redemption following the exercise of the FSA Redemption Option), Condition 7(d) (excluding Conditions 7(d)(iii) and (iv)), Condition 7(f) or Condition 10, the due date for redemption of the Notes in accordance with the respective Conditions (which in respect of a redemption pursuant to Condition 7(c)(iii) shall be the Proposed FSA Redemption Date and in respect of a redemption pursuant to Condition 7(f) shall be the Put Option Redemption Date).

Consequences of Early Termination

- (A) Upon any such early termination of the Swap pursuant to Condition 7(c)(ii)(C) (*Mandatory Redemption Following an Original Securities Index Event*), the termination payment in respect of the Swap shall not be calculated in accordance with Section 6(e) of the Master Agreement but in either circumstance an amount (the “**Index Termination Amount**”) shall be payable by the Issuer to the Swap Counterparty equal to:
 - (i) the final redemption proceeds (including interest thereon) receivable by the Issuer in respect of the redemption of the Original Securities pursuant to the terms and conditions of the Original Securities; less
 - (ii) the nominal amount of the Notes (together with the interest accrued thereon until the due date of redemption thereof) payable in respect of the Notes,

provided that (1) if the Index Termination Amount is negative, the absolute value thereof shall be payable by the Swap Counterparty to the Issuer and (2) if the Index Termination Amount is positive and exceeds the amount that would otherwise be payable by the Issuer to the Swap Counterparty had payments instead been made pursuant to Section 6(e) of the Master Agreement (with calculations determined on the basis of the Issuer being the sole Affected Party), the Index Termination Amount shall not be paid in accordance with the above and payment will be made pursuant to Section 6(e) of the Master Agreement.

Such termination payments are not guaranteed under the Swap Financial Guarantee.

- (B) Upon any such early termination of the Swap in circumstances other than those referred to in subparagraph (A) above, the Issuer or the Swap Counterparty may (subject as set out below and provided, in the case of certain events that the Issuer may procure the substitution as principal obligor under the Swap of a company incorporated in another jurisdiction approved by Party A and the Trustee so that such Termination Event ceases to exist) be liable to make a termination

payment to the other (regardless, if applicable, of which of such parties may have caused such termination).

Such termination payment will be based on the replacement cost or gain for a swap transaction that would have the effect of preserving for the party making the determination the economic equivalent of the Swap. In all cases of early termination occurring other than by reason of a default by the Swap Counterparty (in which case the determination will be made by the Issuer) or illegality (in which case the party which is not the Affected Party (as defined in the Swap) will make the determination (or, if there are two Affected Parties, each party will make a determination which will be averaged)), the termination payment will be determined by the Swap Counterparty on the basis of quotations received from at least three market-makers (failing which, by the Swap Counterparty or the Issuer, as aforesaid, based upon loss).

Swap Adjustment

Following certain events occurring with respect to the Notes, the Issuer and the Swap Counterparty may agree to adjust the terms of the Swap, with the approval of FSA (such approval not be unreasonably withheld or delayed).

Reduction of Swap Counterparty Payments

Upon the occurrence of an Original Securities Tax Event where the Original Securities Issuer is not obliged to Gross Up, an Eligible Securities Tax Event or an Issuer Swap Tax Event (together the “**Tax Reduction Events**”) as described in Condition 4(h)(ii)(B) (*Original Securities Taxation*), Condition 4(j)(ii) (*Eligible Securities Tax Event*) and Condition 4(k)(A) (*Deduction or Withholding for Tax in respect of payments under the Swap*) respectively, the payment obligations of the parties shall be reduced accordingly. The payment obligations of the Issuer pursuant to the Swap falling on or immediately following the date of any such Tax Reduction Event will be reduced by an amount equal to the relevant withholding or deduction imposed on payments made by the Original Securities Issuer or the issuer of Eligible Securities or on the payments of the Swap Counterparty under the Swap, as the case may be (each a “**Issuer Tax Reduction Amount**”). In such circumstances (except where the withholding or deduction results from the occurrence of an Original Securities Tax Event where the Original Securities Issuer is not obliged to Gross Up), the Swap Counterparty’s payment obligation pursuant to the Swap falling on or immediately following the date of the related Tax Reduction Event shall be reduced by an amount (the “**Swap Counterparty Reduction Amount**”) equal to the sum of (i) the relevant Issuer Tax Reduction Amount (excluding, for the avoidance of doubt, any reductions resulting from the occurrence of an Original Securities Tax Event where the Original Securities Issuer is not obliged to Gross Up) applicable to such payment obligation and (ii) any Outstanding Tax Reduction Amount (as defined below); thereafter, the corresponding payment(s) of principal and/or interest by the Issuer under the Notes falling on or immediately following the date of the related Tax Reduction Event, will be reduced by the Swap Counterparty Reduction Amount on a *pro rata* and *pari passu* basis.

An “**Outstanding Tax Reduction Amount**” in respect of the above circumstances means, as at any Swap Counterparty payment date, the excess of any Issuer Tax Reduction Amount (excluding, for the avoidance of doubt, any reductions resulting from the occurrence of an Original Securities Tax Event where the Original Securities Issuer is not obliged to Gross Up) over the payment obligation of the Swap Counterparty in each case as at the immediately prior Swap Counterparty payment date, together with interest on such amount at the London interbank offered rate applicable to the calculation period commencing on such Swap Counterparty payment date and for the period from such date to the next succeeding Swap Counterparty payment date.

Credit Support Annex

Pursuant to the Swap, the Swap Counterparty shall not be required to post Eligible Credit Support (as defined in the 1995 Credit Support Annex (Bilateral Form - Transfer) published by the International Swaps and Derivatives Association, Inc. (the “**CSA**”)) in any circumstances unless the long-term, unsecured and unsubordinated debt obligations of the Swap Counterparty (or its successor or assignee) is less than either (i) AA- by Standard & Poor’s or (ii) Aa3 by Moody’s.

If at any time the long-term, unsecured and unsubordinated debt obligations of the Swap Counterparty are rated below either (i) AA- by Standard & Poor’s or (ii) Aa3 by Moody’s, the Swap Counterparty will be required to post Eligible Credit Support in the form of Cash in accordance with the terms of the CSA which is then deemed to be applicable pursuant to the Confirmation. The obligations of the parties will be marked to market on a monthly basis, the Valuation Dates being the first Local Business Day (as defined in the CSA) of each calendar month. In accordance with the provisions of the CSA, Barclays Bank PLC as Valuation Agent shall notify each party to the CSA of its calculations, together with FSA (to the extent that an FSA Event of Default has not occurred and is not continuing (unless it has been waived or cured to the satisfaction of the Trustee)).

If at any time the long-term, unsecured and unsubordinated debt obligations of the Swap Counterparty are rated below either (i) A by Standard & Poor’s or (ii) A2 by Moody’s, the Swap Counterparty shall either:

- (A) use its reasonable endeavours to procure a replacement swap counterparty that has long-term, unsecured and unsubordinated debt obligations rated not less than AA- by Standard & Poor’s and Aa3 by Moody’s; or
- (B) post Eligible Credit Support (as defined in the CSA) in the form of Cash in accordance with the CSA and the valuation shall be on a daily basis.

If at any time the long-term, unsecured and unsubordinated debt obligations of the Swap Counterparty are rated below A- by Standard & Poor’s and A3 by Moody’s (the “**Minimum Required Rating**”), the Swap Counterparty shall (i) use its reasonable endeavours to procure a replacement swap counterparty (a “**Replacement Counterparty**”) reasonably acceptable to FSA if FSA is the Substitution Instructing Creditor that has long-term, unsecured and unsubordinated debt obligations rated not less than AA- by Standard & Poor’s and Aa3 by Moody’s within 30 calendar days of the date on which the Minimum Required Rating is breached and (ii) continue to post Eligible Credit Support (as defined in the CSA). In the event that the Swap Counterparty can not procure a Replacement Counterparty, an Additional Termination Event will occur in respect of the Swap with the Swap Counterparty as the sole Affected Party.

USE OF PROCEEDS

The net proceeds from each issue of the Notes, which are expected to amount to £150,000,000 will be applied by the Issuer to purchase the Securities on the Issue Date.

DESCRIPTION OF THE SWAP COUNTERPARTY

Barclays Bank PLC

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London E14 5HP. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

Barclays Bank PLC and its subsidiary undertakings (taken together, the “**Barclays Group**”) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The Barclays Group also operates in many other countries around the world. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group and one of the largest financial services companies in the world by market capitalisation.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor’s, P-1 by Moody’s and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated AA by Standard & Poor’s, Aa1 by Moody’s and AA+ by Fitch Ratings Limited.

From 2005, the Barclays Group will prepare financial statements on the basis of International Financial Reporting Standards (“**IFRS**”). Based on the unaudited interim financial information as at and for the period ended 30 June 2005, prepared in accordance with IFRS, the Barclays Group had total assets of £850,362 million, total net loans and advances of £272,348 million, total deposits of £302,253 million, and shareholders’ equity (excluding minority interests) of £21,824 million. The profit before taxation of the Barclays Group for the period ended 30 June 2005 was £2,690 million after charging an impairment loss on loans and advances and other credit risk provisions of £706 million.

The Barclays Group’s audited financial statements for the year ended 31 December 2004 were prepared in accordance with UK Generally Accepted Accounting Principles (“**UK GAAP**”). On this basis, as at 31 December 2004, the Group had total assets of £522,253 million, total net loans and advances of £330,077 million, total deposits of £328,742 million and total shareholders’ funds of £18,271 million (including £690 million on non-equity funds). The profit before taxation under UK GAAP for the year ended 31 December 2004 was £4,612 million after charging net provisions for bad and doubtful debts of £1,091 million.

FORM OF FINANCIAL GUARANTEES

The form of the unconditional and irrevocable financial guarantees, provided by FSA relating to the Notes and the Swap respectively, are set out in Parts 1 and 2 of this section of this Prospectus. The Financial Guarantees are not covered by the property/casualty insurance security fund specified in Article 76 of the New York Insurance Law.

PART 1 – FORM OF NOTES FINANCIAL GUARANTEE

FINANCIAL GUARANTEE

OBLIGOR: Dali Capital PLC

OBLIGATIONS: As described in Endorsement No. 1

Financial Guarantee No.: []

Date of Issuance: 27 September 2005

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED ("FSA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to the Trustee (which expression shall include any additional or successor Trustee appointed under the Trust Deed) for the benefit of the Trustee and the Holders, subject only to the terms of this Financial Guarantee (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments of principal of and interest on, the Obligations.

For the further protection of the Holder, FSA irrevocably and unconditionally guarantees:

- (a) payment of the amount of any distribution of principal of, or interest on, the Obligations made during the Term of this Financial Guarantee to such Holder that is subsequently avoided in whole or in part as a preference payment under applicable law (such payment to be made by FSA in accordance with Endorsement No. 1 hereto); and
- (b) payment of any amount required to be paid under this Financial Guarantee by FSA following FSA's receipt of notice as described in Endorsement No. 1 hereto.

FSA shall be subrogated to the rights of each Holder to receive payments under the Obligations to the extent of any payment by FSA hereunder.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Financial Guarantee. "**Holder**" means the registered owner of any Obligation as indicated on the registration books maintained by or on behalf of the Obligor for such purpose or, if the Obligation is in bearer form, the holder of the Obligation. "**Scheduled Payments**" means payments which are scheduled to be made during the Term of this Financial Guarantee in accordance with the original terms of the Obligations when executed and without regard to any amendment or modification of such Obligations thereafter; payments which become due on an accelerated basis as a result of (a) a default by the Obligor, (b) an election by the Obligor to pay principal on an accelerated basis or (c) any other cause, shall not constitute "Scheduled Payments" unless FSA shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration. "**Term of this Financial Guarantee**" shall have the meaning set forth in Endorsement No. 1 hereto.

This Financial Guarantee sets forth in full the undertaking of FSA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation or dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the fees paid in respect of this Financial Guarantee are non-refundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Financial Guarantee may not be cancelled or revoked during the Term of this Financial Guarantee.

In witness whereof, FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED has caused this Financial Guarantee to be executed on its behalf by its Authorised Officers.

Countersignature
LIMITED

By _____
Authorised Officer
Management Committee

FINANCIAL SECURITY ASSURANCE (U.K.)

By
Authorised Officer

Registered in England, Registration No. 2510099
Registered Office: 1 Angel Court, London EC2R 7AE
A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, NY 10019, USA

Telephone: 0207 796-4646
Telephone: (212) 826-0100
Form FG-UK (03/04)

**ENDORSEMENT NO. 1
TO FINANCIAL GUARANTEE**

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

1 Angel Court
London
EC2R 7AE
United Kingdom

Obligor: Dali Capital PLC (the “**Issuer**”)

Obligations: The payment obligations (the “**Obligations**”) in respect of Principal and Interest owing by the Issuer pursuant to £150,000,000 Series 17 Guaranteed Asset Backed Floating Rate Notes due 2036 issued on 27 September 2005 pursuant to a Euro 5,000,000,000 Secured Transaction Programme (the “**Notes**”)

Financial Guarantee No: []

Date of Issuance: 27 September 2005

1. **Definitions:** For all purposes of this Financial Guarantee, the terms defined in the Trust Deed (as defined below) and not otherwise defined herein shall have the same meaning in this Financial Guarantee (including this Endorsement) and the terms specified below shall have the meanings or constructions provided below, in each case unless the context shall otherwise require.

“**Acceleration**” means in relation to the Notes the giving of notice by the Issuer pursuant to Condition 7(c) (*Mandatory Redemption*) (including redemption following the exercise of the FSA Redemption Option), Condition 7(d) (*Taxation and Redemption Following Swap Termination*), Condition 7(f) (*Noteholders’ Option*) or Condition 10 (*Issuer Events of Default*) that the Notes are immediately due and payable in whole or in part, as the case may be;

“**Affiliate**” means, as to any person, any person which directly or indirectly through one or more intermediaries controls or is controlled by, or is under common control with, the first person where control means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting stock, by contract or otherwise;

“**Agency Agreement**” means the amended and restated agency agreement dated 4 August 2005 between, *inter alios*, the Issuer and The Bank of New York as Issuing and Paying Agent;

“**Business Day**” means any day other than (i) a Saturday or Sunday or (ii) a day on which banks and financial institutions in London are authorised or obliged by law or executive order to be closed or (iii) a public holiday in London;

“**Conditions**” means the terms and conditions relating to the Notes and references to a particular Condition shall be construed in relation to the Conditions accordingly;

“**Financial Guarantee**” means this Financial Guarantee and includes each endorsement hereto;

“**Financial Guarantee and Indemnity Agreement**” means the notes financial guarantee and indemnity agreement made on or about the date of this Financial Guarantee between the Issuer and FSA pursuant to which, *inter alia*, FSA has agreed to issue this Financial Guarantee subject to satisfaction of certain conditions precedent, and this Issuer has

agreed, *inter alia*, to reimburse FSA for, and to FSA being subrogated to the rights of the Noteholders in respect of, any payments made by FSA under the Financial Guarantee;

“**Holder**” has the meaning given to Noteholder in the Conditions;

“**Interest**” means, subject as provided in Scheduled Payments below, any amount in respect of regularly scheduled interest owing by the Issuer under the Notes, but excluding any amount relating to acceleration, prepayment or broken-funding indemnities, penalties (if any), any payment in respect of any withholding of any taxation liability or any other payments in respect of any taxation liability and excluding default interest (if any);

“**Issuing and Paying Agent**” has the meaning given to it in the Agency Agreement;

“**Moody’s**” means Moody’s Investors Service Limited;

“**Northumbrian Bonds**” means the £150,000,000 2.033 per cent. Index-Linked Guaranteed Bonds due 2036 and issued by Northumbrian Water Finance Plc and guaranteed by Northumbrian Water Limited;

“**Notice of Demand**” means a notice of demand and certificate in the form attached as Exhibit A to this Endorsement;

“**Payment Date**” means each Interest Payment Date as defined in the Prospectus;

“**Principal**” means the outstanding nominal amount of the Notes from time to time;

“**Principal Trust Deed**” means the amended and restated principal trust deed dated 4 August 2005 between, *inter alios*, the Issuer and the Trustee;

“**Receipt**” and “**Received**” mean actual delivery to FSA and to the Fiscal Agent (as defined below), if any, prior to 5.00 pm, London time, on a Business Day; delivery either on a day that is not a Business Day, or after 5.00 pm, London time, on any day shall be deemed to be receipt on the next succeeding Business Day. If any notice or certificate given hereunder by the Trustee is not in proper form or is not properly completed, executed or delivered, it shall be deemed not to have been Received, and FSA or its Fiscal Agent shall promptly so advise the Trustee and the Trustee may submit an amended notice or certificate;

“**Scheduled Payments**” means, with respect to any Payment Date, the sum of:

- (i) an amount equal to the amount of Interest due on the Notes on such Payment Date (each, a “**Scheduled Interest Payment**”); and
- (ii) an amount equal to the amount of Principal due on the Notes on such Payment Date (each, a “**Scheduled Principal Payment**”);

in each case in accordance with the original terms of the Obligations when executed without regard to any amendment or modification of such terms thereafter *provided however that*:

- (a) to the extent that FSA has given its written consent to any such amendment or modification, Scheduled Payments shall include Interest and Principal due on the Notes on such Payment Date in accordance with the terms of the Obligations as so amended or modified; and
- (b) in circumstances where the Obligations have become due on an accelerated basis but where (and for so long as) FSA has not elected (or becomes obliged) to pay the principal due on an accelerated basis together with any accrued interest to the date of acceleration, Scheduled Payments shall mean, with respect to any Payment Date, the sum of the amounts of the Scheduled Interest Payment and the Scheduled Principal Payment that would have become due on such Payment Date but for the acceleration of the Obligations.

Scheduled Payments shall not include any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sum payable by the Issuer by reason of any default or event of default in respect of Obligations, or by reason of any deterioration of the creditworthiness of the Issuer, nor shall Scheduled Payments include, nor shall coverage be provided under this Financial Guarantee in respect of, taxes, withholding, or other charges imposed by any governmental authority in respect of payments under the Obligations or in connection with the payment of any Scheduled Payment to a holder or the Trustee, nor shall Scheduled Payments include any default, redemption, early redemption or other make-whole payments in respect of the Obligations (including, for the avoidance of doubt, the amount by which any Make Whole Redemption Amount exceeds the outstanding nominal amount and interest accrued on the Obligations on the date of redemption, any amount by which, on a redemption of the Obligations pursuant to Condition 7(f), the Final Put Redemption Amount exceeds the outstanding nominal amount and interest accrued on the Obligations on the date of redemption or any amount payable pursuant to Conditions 7(c)(ii)(B) or 7(c)(ii)(C);

“**S&P**” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc.;

“**Supplemental Trust Deed**” means the supplemental trust deed dated 27 September 2005 between the Issuer, the Trustee, the Swap Counterparty, FSA, The Bank of New York and AIB International Financial Services Limited;

“**Swap Counterparty**” means Barclays Bank PLC;

“**Term of this Financial Guarantee**” means the period from and including the date of issuance of this Financial Guarantee to and including the last to occur of the following: (i) the date on which all Scheduled Payments that are required to be paid by the Issuer have been paid under the Conditions; (ii) the last day of any period during which any Scheduled Payment could have been avoided in whole or in part under Applicable Insolvency Law (as defined in paragraph 3 of this Endorsement); and (iii) if any proceeding under Applicable Insolvency Law relating to any such avoidance has been commenced or a claim by a relevant insolvency officer relating to such avoidance has been received, in either case prior to the occurrence of (i) and (ii), the date of a final and non-appealable order in resolution of each such proceeding has been entered or, if earlier, the date of final settlement in respect of each such claim, and FSA has paid any amount for which it may become liable pursuant to paragraphs 3.1 and 3.2 below;

“**Trust Deed**” means the Principal Trust Deed as supplemented by the Supplemental Trust Deed; and

“**Trustee**” means The Bank of New York as trustee under the Trust Deed and any successor thereof appointed in accordance with the terms of the Trust Deed.

2. Notices and Conditions to Payment in Respect of Scheduled Payments

- 2.1 Following Receipt by FSA of a Notice of Demand from the Trustee, FSA will pay any amount payable hereunder in respect of Scheduled Payments on the later to occur of (a) 3.00 pm, London time, on the second Business Day following such receipt; and (b) 3.00 pm, London time, on the Business Day on which such payment is due on the Obligations. Following Acceleration, a single Notice of Demand may be submitted in respect of each Scheduled Payment becoming due on each following Payment Date. For the avoidance of doubt, FSA shall not (unless FSA elects in its sole discretion to do so) be obliged to pay any such Scheduled Payment on an accelerated basis (except in respect of an Acceleration following the exercise of the FSA Redemption Option in accordance with the Conditions). Payments due hereunder in respect of the Scheduled Payments will be disbursed to, or to

the order of, the Trustee by wire transfer of immediately available funds to a sterling bank account as directed by the Trustee.

- 2.2 FSA shall be entitled to elect (but in no circumstances whatsoever shall be obliged absent such election) to pay any amount hereunder in respect of Scheduled Payments and any amount due in accordance with paragraph 3 of this Endorsement and any amount due in respect of the Obligations which has become payable on an accelerated basis whether or not any Notice of Demand shall have been received by FSA as set out above provided, however, that by acceptance of this Financial Guarantee the Trustee agrees to provide to FSA upon request by FSA a Notice of Demand in respect of any such payments made by FSA. Any failure by the Trustee to perform its obligations pursuant to this paragraph 2.2 shall not affect the continuing validity of this Financial Guarantee or affect the right of the Trustee to issue subsequent Notices of Demand in accordance with the terms of this Financial Guarantee. For the avoidance of doubt, the exercise by FSA of the FSA Redemption Option in accordance with the Conditions shall be deemed to constitute an election by FSA for the purpose of this paragraph 2.2 to pay amounts in respect of the Obligations on an accelerated basis.
- 2.3 Following Acceleration, FSA may elect at any time thereafter by not less than five days' prior written notice to the Trustee and the Issuing and Paying Agent, to pay on a Payment Date specified in such notice, an amount equal to all of the Principal of the Notes. Such notice shall be irrevocable and shall oblige FSA to make such payment on the specified Payment Date, together with any Scheduled Interest Payment then due. If so requested by FSA at the time FSA gives such written notice, the Trustee shall deliver to FSA a Notice of Demand.
- 2.4 Scheduled Payments guaranteed hereunder shall not include Interest in respect of Principal paid hereunder on an accelerated basis, accruing from after the date of such payment of Principal.
- 2.5 FSA's obligations hereunder in respect of Scheduled Payments shall be discharged to the extent such amounts are paid by the Issuer in accordance with the Prospectus and the Conditions or paid by FSA as provided herein whether or not such funds are properly applied by the Trustee or any person to whom FSA, pursuant to the terms of this Financial Guarantee, makes such payment in accordance with the directions of the Trustee pursuant to paragraph 2.1 (except in any such case as otherwise provided in paragraph 3 of this Endorsement), provided, however, that payment by FSA to a Fiscal Agent (as defined below) shall not discharge FSA's obligations hereunder in respect of the Scheduled Payments.

3. Notices and Conditions to Payment in Respect of Scheduled Payments avoided as Preference Payments

- 3.1 If any Scheduled Payment is avoided under applicable bankruptcy, insolvency, receivership or similar law (including pursuant to section 238 or 239 of the United Kingdom Insolvency Act 1986 ("**Applicable Insolvency Law**")), FSA will pay such amount out of the funds of FSA on the later of:
- (a) the date when such amount is due to be paid pursuant to the Order referred to below; or
 - (b) the first to occur of:
 - (i) the second Business Day following Receipt by FSA from the Trustee of (A) a certified copy of the order of the court or other governmental body which exercised jurisdiction to the effect that the Holder is required to return Principal of or Interest paid on the Obligations during the Term of this Financial

Guarantee because such payments were avoidable as preference payments under Applicable Insolvency Law (the “**Order**”), (B) a certificate of the Holder that the Order has been entered and is not subject to any stay and (C) an assignment duly executed and delivered by the Holder or the Trustee, in such form as is reasonably required by FSA, and provided to the Holder by FSA, irrevocably assigning to FSA all rights and claims of the Holder (subject to the provisions of the Trust Deed) relating to or arising under the Obligations against the estate of the Issuer or otherwise with respect to such preference payment; or

- (ii) the date of Receipt by FSA from the Trustee of the items referred to in Clauses (A), (B), and (C) above if, at least two Business Days prior to such date of Receipt, FSA shall have Received written notice from the Trustee that such items were to be delivered on such date and such date was specified in such notice.

3.2 Any payment required to be made under paragraph 3.1 shall be disbursed to the administrator, receiver, conservator, debtor-in-possession or trustee in bankruptcy or other insolvency or similar officer named or identified by reference in the Order or such other person entitled to receipt of the payment under the relevant Applicable Insolvency Law and not to the Trustee or any Holder directly (unless such person has previously paid such amount to the administrator, special administrator, receiver, conservator, debtor-in-possession, trustee in bankruptcy or other insolvency or similar officer named or identified by reference in the Order or such other person entitled to receipt of the payment under the relevant Applicable Insolvency Law, in which case such payment shall be disbursed to the Trustee for distribution to the relevant Holder(s) for application to the payment of any such avoided Scheduled Payment upon proof of such payment by such person reasonably satisfactory to FSA). In connection with the foregoing, FSA shall have the rights contained in Clauses 8.5 to 8.10 (inclusive) of the Supplemental Trust Deed, to the extent that such rights relate to this Financial Guarantee.

3.3 For the avoidance of doubt, paragraph 3.1 shall not apply where payment of a Scheduled Payment to the Holder is avoided by reason of the Trustee’s bankruptcy, insolvency, receivership or application of any Applicable Insolvency Law applicable to the Trustee.

4. Governing Law and Jurisdiction

4.1 This Financial Guarantee shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof.

4.2 Each of FSA and the Trustee agrees that the courts of the State of New York and the Courts of the United States in the State of New York, in each case sitting in the County of New York (the “**Courts**”) shall have jurisdiction to hear and determine any suit action or proceedings and to settle any disputes which may arise out of or in connection with this Financial Guarantee (together “**Proceedings**”) and, for such purposes, irrevocably submits to the jurisdiction of such Courts.

4.3 FSA agrees that the process by which any Proceedings are begun may be served on it by being delivered to Financial Security Assurance Inc., at 31 West 52nd Street, New York, NY 10019, USA.

4.4 The submission to the jurisdiction of the Courts shall not limit the right of the Trustee from taking Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

5. **Fiscal Agent:** At any time during the Term of this Financial Guarantee, FSA may appoint a fiscal agent in the City of New York or in the City of London (the “**Fiscal Agent**”) for the purposes of this Financial Guarantee by written notice to the Trustee at the notice address specified in or pursuant to the Trust Deed specifying the name and notice address of the Fiscal Agent. From and after the date of receipt of such notice by the Trustee, (i) copies of all notices and documents required to be delivered to FSA pursuant to this Financial Guarantee shall be simultaneously delivered to the Fiscal Agent and to FSA and shall not be deemed Received until Received by both, and (ii) all payments required to be made by FSA under this Financial Guarantee may be made directly by FSA or by the Fiscal Agent on behalf of FSA. The Fiscal Agent is the agent of FSA only and (without prejudice to the obligations of FSA) the Fiscal Agent shall in no event be liable to any Holder for any acts of the Fiscal Agent or any failure of FSA to deposit, or cause to be deposited, sufficient funds to make payments due under this Financial Guarantee.
6. **Waiver of Defence:** To the fullest extent permitted by applicable law, FSA agrees not to assert, and hereby waives, for the benefit of each Holder, all rights (whether by counterclaim, set-off or otherwise) and defences (including, without limitation, the defence of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defences may be available to FSA to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions of this Financial Guarantee. Nothing in this paragraph shall be construed to limit or otherwise impair FSA’s right to pursue recovery or claims (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, or to require payment by FSA of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Financial Guarantee or the Obligations.
7. **Assignment:** The rights and obligations of FSA hereunder may be assigned or transferred to any Affiliate of FSA (including, for the avoidance of doubt, Financial Security Assurance Inc. (through a London branch thereof or otherwise) or Financial Security Assurance International Limited) subject to the requirements of the Trust Deed and provided that:
- (a) No FSA Event of Default has occurred and is continuing at the time of such assignment or transfer or would occur as a result of such assignment or transfer;
 - (b) FSA or such assignee or transferee delivers to the Trustee written confirmation from Moody’s and S&P that, at the time of and immediately following any such assignment or transfer, the claims paying ability of such Affiliate was rated at least equal to the claims paying ability of FSA at that time;
 - (c) FSA or such assignee or transferee thereafter delivers to the Trustee written notice of any such assignment or transfer; and
 - (d) at the time of and immediately following any such assignment or transfer, the application of any tax laws, treaties, rules, requirements or regulations on the payments by such Affiliate under this Financial Guarantee would not put the Holder in a worse position than it would otherwise be in if such payments were made by FSA.
8. **Notices:** All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied as follows:

To FSA:

Financial Security Assurance (U.K.) Limited
1 Angel Court
London EC2R 7AE
United Kingdom

Attention: Managing Director

Re: Financial Guarantee No: []

Telecopy No: 0207 796 3540

Telephone: 0207 796 4646

With a copy to:

Financial Security Assurance Inc.

31 West 52nd Street

New York, NY 10019

USA

Attention: Managing Director – Surveillance

Re: Financial Guarantee No: []

Telecopy No: (212) 339 3518

Telephone: (212) 826 0100

To the Trustee:

The Bank of New York

One Canada Square

Canary Wharf

London

E14 5AL

Telecopy No: +44 20 7964 6061/6399

Attention: The Manager, Corporate Trust

FSA or the Trustee may specify a different address or addresses in writing, mailed or delivered to each of the parties hereto.

- 9. Priorities:** In the event that any term or provision of the face of this Financial Guarantee is inconsistent with the provisions of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.
- 10. Exclusions from Insurance Guaranty Funds:** This Financial Guarantee is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. This Financial Guarantee is not covered by the Florida Insurance Guaranty Association created under Part 11 of Chapter 631 of the Florida Insurance Code. In the event FSA were to become insolvent, any demands arising under this Financial Guarantee are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.
- 11. Surrender of Financial Guarantee:** The Trustee and the Holder shall surrender this Financial Guarantee to FSA for cancellation upon expiration of the Term of this Financial Guarantee.
- 12. Redenomination:** If the obligations of the Issuer under the Conditions are redenominated into euro, the obligations of FSA under this Financial Guarantee shall not be affected by such redenomination, save that following such redenomination the payment obligations of FSA under this Financial Guarantee shall be made in euro.
- 13. Third Party Rights:** Except as may be permitted under the laws of England as they applied before the Contracts (Rights of Third Parties) Act 1999 was passed into law, it is not intended that any term of this Financial Guarantee be enforceable by any third party other than the Trustee.

IN WITNESS WHEREOF, FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED has caused this Endorsement No. 1 to be executed by its Authorised Officers.

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

Authorised Officer

Countersignature:

Authorised Officer
Management Committee

[FORM OF NOTICE OF DEMAND]

Financial Security Assurance (UK) Limited
1 Angel Court
London EC2R 7AE

The undersigned, a duly authorised officer of The Bank of New York (the “**Trustee**”), which expression shall include any successor thereto, hereby certifies to Financial Security Assurance (U.K.) Limited (“**FSA**”), with reference to Financial Guarantee No. [] dated 27 September 2005 (the “**Financial Guarantee**”) issued by FSA in respect of the payment obligations (the “**Obligations**”) of Dali Capital PLC (the “**Issuer**”) in respect of Principal and Interest owing by the Issuer pursuant to the £150,000,000 Series 17 Guaranteed Asset Backed Floating Rate Notes due 2036, issued on 27 September 2005 pursuant to a Euro 5,000,000,000 Secured Transaction Programme (the “**Notes**”), that:

- (i) The Trustee is the trustee for the Noteholders under the Trust Deed (as defined in the Financial Guarantee).
- (ii) The amount due in respect of Scheduled Payments pursuant to this Notice of Demand is £[•] (the “**Amount Demanded**”). The Trustee confirms that:
 - (a) it has been notified by the Issuing and Paying Agent that the Amount Demanded referred to above constitutes:
 - (X) the difference between £[•], being the amount due on the relevant Payment Date (being the sum of the Scheduled Principal Payment and the Scheduled Interest Payment due under the Notes on that Payment Date) and £[•], being the amount available to the Issuer to make such payment at the time of such notification; or
 - (Y) the amount of the Scheduled Principal Payment and the Scheduled Interest Payment due under the Notes on that Payment Date; or
 - (b) it has received no such notification from the Issuing and Paying Agent and accordingly, the Amount Demanded constitutes the sum of the Scheduled Principal Payment and the Scheduled Interest Payment due under the Notes on that Payment Date; or
 - (c) either: (i) it has provided written notice to the Issuer that the notes are immediately due and payable pursuant to Condition 10 or following the exercise by FSA of its FSA Redemption Option in accordance with Condition 7(c)(iii); or (ii) the Holders have received written notice from the Issuer that the Notes are immediately due and payable in whole or in part pursuant to Condition [•]: and accordingly, the Amount Demanded constitutes the sum of the Scheduled Payments.
- (iii) The Trustee is making a demand under the Financial Guarantee for the Amount Demanded to be applied to the payment of Scheduled Payments.
- (iv) The Trustee agrees that, following receipt of funds from FSA, it shall: (a) hold such amounts in trust and apply the same directly to the payment of Scheduled Payments on the Obligations when due (or, if received after the due date, immediately following receipt thereof); (b) not apply such funds for any other purpose; (c) not commingle such funds with other funds held by the Trustee; and (d) maintain an accurate record of such payments with

respect to each Obligation and the corresponding demand on the Financial Guarantee and proceeds thereof.

- (v) The Trustee hereby assigns to FSA its rights to receive any payment from the Issuer in respect of the Obligations to the extent of any payments under the Financial Guarantee. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to FSA in respect of such payments. Payments to FSA in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holders to receive all Scheduled Payments in respect of the Obligations. The Trustee shall take such action and deliver such instruments as may be reasonably requested or required by FSA to effectuate the purpose or provisions of this paragraph (v).
- (vi) The Trustee acknowledges that, subject to and in accordance with the Supplemental Trust Deed, it has enclosed a power of attorney in respect of this Notice of Demand appointing FSA, so long as no FSA Event of Default has occurred and is continuing, as its agent and attorney-in-fact for the Trustee in any legal proceeding with respect to the Obligations. The Trustee hereby agrees, subject as aforesaid, that so long as no FSA Event of Default shall have occurred and be continuing, FSA may at any time during the continuation of any proceeding by or against the Issuer under any Applicable Insolvency Law (an "**Insolvency Proceeding**") direct all matters relating thereto, including without limitation (a) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a "**Preference Claim**"), (b) the direction of any appeal of any order relating to any Preference Claim at the expense of FSA but subject to reimbursement as provided in the Financial Guarantee and Indemnity Agreement and (c) the posting of any surety or performance bond pending any such appeal.
- (vii) Payment should be made in pounds sterling by wire transfer direct to [*SPECIFY ACCOUNT*].

Unless the context otherwise requires, capitalised terms used in this Notice of Demand and certificate and not defined herein shall have the meaning provided in the Financial Guarantee and any endorsement thereto.

IN WITNESS WHEREOF this Notice of Demand and certificate has been executed and delivered as a deed by the Trustee as of the _____ day of _____

Executed as a deed by _____)
The Bank of New York _____)
Authorised Signatory _____)

Title: _____

For FSA or Fiscal Agent Use Only

Wire transfer sent on _____ By: _____

Confirmation Number: _____

PART 2 – FORM OF SWAP FINANCIAL GUARANTEE

FINANCIAL GUARANTEE

OBLIGOR: Dali Capital PLC

Financial Guarantee No.: []

OBLIGATIONS: As described in Endorsement No. 1

Date of Issuance: 27 September 2005

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED ("FSA"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES to Barclays Bank PLC (the "**Holder**", which expression shall include any successor Holder or transferee of its rights and obligations as permitted under the Master Agreement and Confirmation), subject only to the terms of this Financial Guarantee (which includes each endorsement hereto), the full and complete payment by the Obligor of Scheduled Payments on the Obligations.

For the further protection of the Holder, FSA irrevocably and unconditionally guarantees:

- (a) payment of the amount of any distribution in respect of the Obligations made during the Term of this Financial Guarantee to the Holder that is subsequently avoided in whole or in part as a preference payment under applicable law (such payment to be made by FSA in accordance with Endorsement No. 1 hereto); and
- (b) payment of any amount required to be paid under this Financial Guarantee by FSA following FSA's receipt of notice as described in Endorsement No. 1 hereto.

FSA shall be subrogated to the rights of the Holder to receive payments under the Obligations to the extent of any payment by FSA hereunder.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Financial Guarantee. "**Master Agreement**", "**Confirmation**", "**Scheduled Payment**" and "**Term of this Financial Guarantee**" shall have the meaning set forth in Endorsement No. 1 hereto.

This Financial Guarantee sets forth in full the undertaking of FSA, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto, or by the merger, consolidation or dissolution of the Obligor. Except to the extent expressly modified by an endorsement hereto, the fees paid in respect of this Financial Guarantee are non-refundable for any reason whatsoever, including payment, or provision being made for payment, of the Obligations prior to maturity. This Financial Guarantee may not be cancelled or revoked during the Term of this Financial Guarantee.

In witness whereof, FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED has caused this Financial Guarantee to be executed on its behalf by its Authorised Officers.

Countersignature

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

By _____
Authorised Officer
Management Committee

By _____
Authorised Officer

Registered in England, Registration No. 2510099
Registered Office: 1 Angel Court, London EC2R 7AE
A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, NY 10019, USA

Telephone: (020) 7796-4646
Telephone: (212) 826-0100
Form FG-UK (03/04)

ENDORSEMENT NO.1 TO FINANCIAL GUARANTEE

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

1 Angel Court
London EC2R 7AE
United Kingdom

Obligor: Dali Capital PLC (the "**Obligor**")

Obligations: The payment obligations (the "**Obligations**") in respect of Scheduled Payments (as defined below) owing by the Obligor under the transaction documented by the Confirmation (as defined below) under the Master Agreement (as defined below)

Financial Guarantee No: []

Date of issuance: 27 September 2005

- 1. Definitions** For all purposes of this Financial Guarantee, the terms defined in the Trust Deed (as defined below) and not otherwise defined herein shall have the same meaning in this Financial Guarantee (including this Endorsement) and the terms specified below shall have the meanings or constructions provided below, in each case unless the context shall otherwise require.

"**Affiliate**" means, as to any person, any person which directly or indirectly through one or more intermediaries controls or is controlled by, or is under common control with, the first person where control means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting stock, by contract or otherwise;

"**Business Day**" means any day other than (i) a Saturday or Sunday or (ii) a day on which banks and financial institutions in London are authorised or obliged by law or executive order to be closed or (iii) a public holiday in London;

"**Confirmation**" means the confirmation dated on or about 27 September 2005 entered into between the Obligor and the Holder under the Master Agreement with an effective date of 27 September 2005 in respect of a swap relating to the Northumbrian Bonds, without regard to any subsequent amendment or modification thereof except amendments or modifications to which FSA has given its prior written consent;

"**Dali Notes**" means the £150,000,000 Series 17 Guaranteed Asset Backed Floating Rate Notes due 2036 of Dali Capital plc;

"**Financial Guarantee**" means this Financial Guarantee and includes each endorsement hereto;

"**Financial Guarantee and Indemnity Agreement**" means the swap financial guarantee and indemnity agreement made on or about the date of this Financial Guarantee between the Obligor and FSA pursuant to which, inter alia, FSA has agreed to issue this Financial Guarantee subject to the satisfaction of certain conditions precedent, and the Obligor has agreed, inter alia, to reimburse FSA for, and to FSA being subrogated to the rights of, the Holder in respect of any payments made by FSA under the Financial Guarantee;

"**FSA Event of Default**" has the meaning ascribed to it in the Supplemental Trust Deed;

“**Holder**” means Barclays Bank PLC as swap counterparty under the Master Agreement and Confirmation and any successor to or transferee of its rights and obligations as permitted under the Master Agreement and the Confirmation;

“**Master Agreement**” means the ISDA master agreement (1992 Multicurrency – Cross Border) (including the Schedule thereto) dated as of 8 April 2005 between the Obligor and the Holder;

“**Moody’s**” means Moody’s Investors Service Limited;

“**Northumbrian Bonds**” means the £150,000,000 2.033 per cent. Index-Linked Guaranteed Bonds due 2036 and issued by Northumbrian Water Finance Plc and guaranteed by Northumbrian Water Limited;

“**Notice of Demand**” means a notice of demand in the form attached as Exhibit A to this Endorsement;

“**Payment Date**” means each of (i) each Scheduled Payment Date under the Confirmation and (ii) in the case of a Termination Payment, the date for payment determined in accordance with Section 6(d)(ii) of the Master Agreement or the provisions of the Schedule to the Master Agreement and the Confirmation, as applicable;

“**Principal Trust Deed**” means the amended and restated principal trust deed dated 4 August 2005 between, *inter alios*, the Obligor and the Trustee;

“**Receipt**” and “**Received**” mean actual delivery to FSA and to the Fiscal Agent (as defined below), if any, prior to 5.00 pm, London time, on a Business Day; delivery either on a day that is not a Business Day, or after 5.00 pm, London time on any day shall be deemed to be Receipt on the next succeeding Business Day. If any notice given hereunder by the Holder is not in proper form or is not properly completed, executed or delivered, it shall be deemed not to have been Received, and FSA or its Fiscal Agent shall promptly so advise the Holder and the Holder may submit an amended notice;

“**S&P**” means Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies Inc.;

“**Scheduled Payments**” means (1) any and all payments in respect of any Payment Date which are specified in the Confirmation and required to be paid by the Obligor to the Holder in accordance with the terms of Section 2 of the Master Agreement and the Confirmation and (2) (subject as provided below) amounts which are required to be paid by the Obligor to the Holder in accordance with the terms of Section 6(e) of the Master Agreement or the provisions of the Schedule to the Master Agreement (in accordance with the terms of the Confirmation), as applicable, as a result of early termination of the Master Agreement or the transaction thereunder documented by the Confirmation unless the early termination is due to an early redemption of the Dali Notes pursuant to Conditions 7(c)(ii)(B) (Following an Original Securities Tax Event) or 7(c)(ii)(C) (Following an Original Securities Index Event) thereof (a “**Termination Payment**”); in each case in accordance with the original terms of the Master Agreement and the Confirmation and without regard to any subsequent amendment or modification thereof except amendments or modifications to which FSA has given its prior written consent. Scheduled Payments shall not include any amounts due in respect of the Obligations attributable to any increase in interest rate, penalty or other sum payable by the Obligor by reason of any default or event of default in respect of the Obligations, or by reason of any deterioration of the creditworthiness of the Obligor, nor shall Scheduled Payments include, nor shall coverage be provided under this Financial Guarantee in respect of, taxes, withholding, or other charges imposed by any governmental authority (including, without limitation, Taxes as defined in the Master Agreement) due in connection with the payment of any Scheduled Payment to a Holder, nor shall Scheduled

Payments include any default, early redemption or other make whole payments in respect of the Obligations (other than, for the avoidance of doubt, a Termination Payment);

“**Supplemental Trust Deed**” means the supplemental trust deed dated 27 September 2005, between the Issuer, the Trustee, the Holder, FSA, The Bank of New York and AIB International Financial Services Limited;

“**Term of this Financial Guarantee**” means the period from and including the date of issuance of this Financial Guarantee to and including the last to occur of the following (i) the date on which all Scheduled Payments that are required to be paid by the Obligor have been paid under the Confirmation (ii) the last day of any period during which any Scheduled Payment could have been avoided in whole or in part under Applicable Insolvency Law (as defined in paragraph 3 of this Endorsement) and (iii) if any proceeding under Applicable Insolvency Law relating to any such avoidance has been commenced or a claim by a relevant insolvency officer relating to such avoidance has been received, in either case prior to the occurrence of (i) and (ii), the date of a final and non-appealable order in resolution of each such proceeding has been entered or, if earlier, the date of final settlement in respect of each such claim, and FSA has paid any amount for which it may become liable pursuant to paragraphs 3.1 and 3.2 below;

“**Trust Deed**” means the Principal Trust Deed as supplemented by the Supplemental Trust Deed; and

“**Trustee**” means The Bank of New York and any successor thereof appointed in accordance with the terms of the Trust Deed.

2. Notices and Conditions to Payment in Respect of Scheduled Payments or any amount under paragraph 2.4

- 2.1 Following Receipt by FSA of a Notice of Demand from the Holder, FSA will pay any amount payable hereunder in respect of Scheduled Payments on the later to occur of (a) 3.00 pm, London time, on the second Business Day following such Receipt; and (b) 3.00 pm, London time, on the Business Day on which such payment is due on the Obligations. For the avoidance of doubt, FSA shall not (unless FSA elects in its sole discretion to do so) be obliged to pay any Scheduled Payments on an accelerated basis (except in respect of a Termination Payment following (i) the exercise by FSA of its FSA Redemption Option pursuant to the Dali Notes or (ii) the giving of notice by FSA to terminate the Swap in the circumstances referred to in paragraph 2.4 below). Payments due hereunder in respect of Scheduled Payments will be disbursed to, or to the order of, the Holder by wire transfer of immediately available funds to a sterling bank account as directed by the Holder.
- 2.2 FSA shall be entitled to elect (but in no circumstances whatsoever shall be obliged absent such election) to pay any amount hereunder in respect of Scheduled Payments and any amount due in accordance with paragraph 3 of this Endorsement whether or not any Notice of Demand shall have been Received by FSA as set out above provided, however, that by acceptance of this Financial Guarantee the Holder agrees to provide to FSA upon request by FSA a Notice of Demand in respect of any such payments made or elected to be made by FSA. Any failure by the Holder to perform its obligations pursuant to this paragraph 2.2 shall not affect the continuing validity of this Financial Guarantee or affect the right of the Holder to issue subsequent Notices of Demand in accordance with the terms of this Financial Guarantee.
- 2.3 FSA's obligations hereunder in respect of Scheduled Payments shall be discharged to the extent such amounts are paid by the Obligor in accordance with the Confirmation or paid by FSA as provided herein whether or not such funds are properly applied by the Holder or any person to whom FSA, pursuant to the terms of this Financial Guarantee, makes such

payment in accordance with the directions of the Holder pursuant to paragraph 2.1 (except in any such case as otherwise provided in paragraph 3 of this Endorsement), provided, however, that payment by FSA to a Fiscal Agent (as defined below) shall not discharge FSA's obligations hereunder in respect of the Scheduled Payments.

- 2.4 Provided that no FSA Event of Default has occurred or is continuing, following the occurrence of (i) an Event of Default where the Obligor is the Defaulting Party or a Termination Event where the Obligor is the Affected Party or (ii) an Event of Default where the Holder is the Defaulting Party or a Termination Event where the Holder is the sole Affected Party (each as defined in the Master Agreement or the Confirmation), FSA may give written notice to the Obligor and Holder to terminate the whole of the transaction documented by the Confirmation in accordance with the provisions thereof. Upon any termination in such circumstances, (a) in the event that a Termination Payment is due to the Holder, the Holder shall promptly deliver to FSA a Notice of Demand; and (b) in any other circumstances the whole of the transaction documented by the Confirmation shall terminate in accordance with its terms.

3. Notices and Conditions to Payment in Respect of Scheduled Payments avoided as Preference Payments

- 3.1 If any Scheduled Payment is avoided under applicable bankruptcy, insolvency, receivership or similar law (including pursuant to section 238 or 239 of the United Kingdom Insolvency Act 1986) ("**Applicable Insolvency Law**"), FSA will pay such amount out of the funds of FSA on the later of:

3.1.1 the date when such amount is due to be paid pursuant to the Order referred to below;
or

3.1.2 the first to occur of:

- (i) the second Business Day following Receipt by FSA from the Holder of (A) a certified copy of the order of the court or other governmental body which exercised jurisdiction to the effect that the Holder is required to return any Scheduled Payment paid on the Obligations during the Term of this Financial Guarantee because such payments were avoidable as preference payments under Applicable Insolvency Law (the "**Order**"), (B) a certificate of the Holder that the Order has been entered and is not subject to any stay and (C) an assignment duly executed and delivered by the Holder, in such form as is reasonably required by FSA, and provided to the Holder by FSA, irrevocably assigning to FSA all rights and claims of the Holder relating to or arising under the Obligations against the estate of the Obligor or otherwise with respect to such preference payment; or
- (ii) the date of Receipt by FSA from the Holder of the items referred to in Clauses (A), (B) and (C) above if, at least two Business Days prior to such date of Receipt, FSA shall have Received written notice from the Holder that such items were to be delivered on such date and such date was specified in such notice.

- 3.2 Any payment required to be made under paragraph 3.1 shall be disbursed to the administrator, special administrator, receiver, conservator, debtor-in-possession or trustee in bankruptcy or other insolvency or similar officer named or identified by reference in the Order or such other person entitled to receipt of the payment under the relevant Applicable Insolvency Law and not to the Holder directly (unless such person has previously paid such amount to the special administrator, receiver, conservator, debtor-in-possession, trustee in bankruptcy or other insolvency or similar officer named or identified by reference in the

Order or such other person entitled to receipt of the payment under the relevant Applicable Insolvency Law, in which case such payment shall be disbursed to the Holder for application to the payment of any such avoided Scheduled Payment upon proof of such payment by such person reasonably satisfactory to FSA).

- 3.3 For the avoidance of doubt, paragraph 3.1 shall not apply where payment of a Scheduled Payment to the Holder is avoided by reason of the Holder's bankruptcy, insolvency, receivership or application of any Applicable Insolvency Law applicable to the Holder.

4. Governing Law and Jurisdiction

- 4.1 This Financial Guarantee shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the conflict of laws principles thereof.

- 4.2 Each of FSA and the Holder agrees that the courts of the State of New York and the Courts of the United States in the State of New York, in each case sitting in the County of New York (the "**Courts**") shall have jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with this Financial Guarantee (together "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such Courts.

- 4.3 FSA agrees that the process by which any Proceedings are begun may be served on it by being delivered to Financial Security Assurance Inc., at 31 West 52nd Street, New York, NY 10019, USA.

- 4.4 The submission to the jurisdiction of the Courts shall not limit the right of the Holder from taking Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

- 5. Fiscal Agent:** At any time during the Term of this Financial Guarantee, FSA may appoint a fiscal agent in the City of New York or in the City of London (the "**Fiscal Agent**") for the purposes of this Financial Guarantee by written notice to the Holder at the notice address specified in or pursuant to the Master Agreement specifying the name and notice address of the Fiscal Agent. From and after the date of receipt of such notice by the Holder, (i) copies of all notices and documents required to be delivered to FSA pursuant to this Financial Guarantee shall be simultaneously delivered to the Fiscal Agent and to FSA and shall not be deemed Received until Received by both, and (ii) all payments required to be made by FSA under this Financial Guarantee may be made directly by FSA or by the Fiscal Agent on behalf of FSA. The Fiscal Agent is the agent of FSA only and (without prejudice to the obligations of FSA) the Fiscal Agent shall in no event be liable to the Holder for any acts of the Fiscal Agent or any failure of FSA to deposit, or cause to be deposited, sufficient funds to make payments due under this Financial Guarantee.

- 6. Waiver of Defence:** To the fullest extent permitted by applicable law, FSA agrees not to assert, and hereby waives, for the benefit of the Holder, all rights (whether by counterclaim, set-off or otherwise) and defences (including, without limitation, the defence of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defences may be available to FSA to avoid payment of its obligations under this Financial Guarantee in accordance with the express provisions of this Financial Guarantee. Nothing in this paragraph shall be construed to limit or otherwise impair FSA's right to pursue recovery or claims (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, or to require payment by FSA of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Financial Guarantee or the Obligations.

7. **Assignment:** The rights and obligations of FSA hereunder may be assigned or transferred to any Affiliate of FSA (including, for the avoidance of doubt, Financial Security Assurance Inc. (through a London branch thereof or otherwise) or Financial Security Assurance International Limited) subject to the requirements of the Master Agreement and provided that:
- (a) No FSA Event of Default (as defined in the Supplemental Trust Deed) has occurred and is continuing at the time of such assignment or transfer or would occur as a result of such assignment or transfer;
 - (b) FSA or such assignee or transferee delivers to the Holder written confirmation from Moody's and S&P that, at the time of such assignment or transfer, the claims paying ability of such Affiliate was rated at least equal to the claims paying ability of FSA at that time;
 - (c) FSA or such assignee or transferee thereafter delivers to the Holder written notice of any such assignment or transfer; and
 - (d) at the time of and immediately following any such assignment or transfer, the application of any tax laws, treaties, rules, requirements or regulations on the payments by such Affiliate under this Financial Guarantee would not put the Holder in a worse position than it would otherwise be in if such payments were made by FSA.
8. **Notices:** All notices to be given hereunder shall be in writing (except as otherwise specifically provided herein) and shall be mailed by registered mail or personally delivered or telecopied as follows:

To FSA:

Financial Security Assurance (U.K.) Limited
1 Angel Court
London EC2R 7AE
United Kingdom

Attention: Managing Director

Re: Financial Guarantee No: []
Telecopy No: 0207 796 3540
Telephone: 0207 796 4646

With a copy to:

Financial Security Assurance Inc.
31 West 52nd Street
New York, NY 10019
USA

Attention: Managing Director – Surveillance

Re: Financial Guarantee No: []
Telecopy No: (212) 339 3518
Telephone: (212) 826 0100

To the Holder:

Barclays Bank PLC
5 North Colonnade
Canary Wharf
London E14 4BB

Tel: +44 20 7773 9238

Fax: +44 20 7773 4876

Attention: MTN Desk

FSA or the Holder may specify a different address or addresses in writing, mailed or delivered to each of the parties hereto.

- 9. Priorities:** In the event that any term or provision of the face of this Financial Guarantee is inconsistent with the provisions of this Endorsement, the provisions of this Endorsement shall take precedence and shall be binding.
- 10. Exclusions from Insurance Guaranty Funds:** This Financial Guarantee is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. This Financial Guarantee is not covered by the Florida Insurance Guaranty Association created under Part 11 of Chapter 631 of the Florida Insurance Code. In the event FSA were to become insolvent, any claims arising under this Financial Guarantee are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.
- 11. Surrender of Financial Guarantee:** The Holder shall surrender this Financial Guarantee to FSA for cancellation upon expiration of the Term of this Financial Guarantee.
- 12. Redenomination:** If the obligations of the Obligor under the terms of the Confirmation are redenominated into euro, the obligations of FSA under this Financial Guarantee shall not be affected by such redenomination, save that following such redenomination the payment obligations of FSA under this Financial Guarantee shall be made in euro.
- 13. Third Party Rights:** Except as may be permitted under the laws of England as they applied before the Contracts (Rights of Third Parties) Act 1999 was passed into law, it is not intended that any term of this Financial Guarantee be enforceable by any third party other than the Holder.

IN WITNESS WHEREOF, FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED has caused this Endorsement No.1 to be executed by its Authorised Officers.

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

Authorised Officer

Countersignature:

Authorised Officer
Management Committee

**EXHIBIT A
TO ENDORSEMENT NO. 1**

FORM OF NOTICE OF DEMAND

Financial Security Assurance (U.K.) Limited
1 Angel Court
London EC2R 7AE

The undersigned, a duly authorised officer of Barclays Bank PLC (the “**Holder**”, which expression shall include any successor thereto or transferee of its rights and obligations as permitted under the Obligations (as defined below)), hereby certifies to Financial Security Assurance (U.K.) Limited (“**FSA**”), with reference to Financial Guarantee No. [] dated 27 September 2005 (the “**Financial Guarantee**”) issued by FSA in respect of the payment obligations (the “**Obligations**”) of Dali Capital PLC (the “**Obligor**”) in respect of Scheduled Payments under the transaction documented by the Confirmation under the Master Agreement that:

- (i) The Holder is the Holder under the Financial Guarantee.
- (ii) The amount due in respect of Scheduled Payments pursuant to this Notice of Demand is £[●] (the “**Amount Demanded**”). The Holder confirms that the Amount Demanded referred to above constitutes Scheduled Payments due under the Confirmation on that Payment Date less any amount thereof received by the Holder.

The Holder confirms that:

- (a) the Amount Demanded referred to above constitutes:
 - (X) the difference between £[●], being the Scheduled Payment due on the relevant Payment Date and £[●], being the amount received by the Obligor in respect of the Northumbrian Bonds; or
 - (Y) the amount of the Scheduled Payment due on that Payment Date; or
- (b) it has provided written notice to the Obligor pursuant to Section 12(a) of the Schedule to the Master Agreement in respect of a Scheduled Payment owed to it in accordance with the terms of Section 6(e) of the Master Agreement or the provisions of the Schedule to the Master Agreement (in accordance with the terms of the Confirmation) as a result of early termination of the Master Agreement or the transaction thereunder documented by the Confirmation.
- (iii) The Holder is making a demand under the Financial Guarantee for the Amount Demanded to be applied to the payment of Scheduled Payments.
- (iv) The Holder hereby assigns to FSA its rights to receive any payment from the Obligor in respect of the Obligations to the extent of any payments under the Financial Guarantee. The foregoing assignment is in addition to, and not in limitation of, rights of subrogation otherwise available to FSA in respect of such payments. Payments to FSA in respect of the foregoing assignment shall in all cases be subject to and subordinate to the rights of the Holder to receive all Scheduled Payments in respect of the Obligations. The Holder shall take such action and deliver such instruments as may be reasonably requested or required by FSA to effect the purpose or provisions of this paragraph (iv).
- (v) Subject always to the Trust Deed, the Holder hereby agrees, that for so long as no FSA Event of Default (as defined in the Supplemental Trust Deed) shall have occurred and be continuing, FSA

may at any time during the continuation of any proceeding by or against the Obligor under any Applicable Insolvency Law (an “**Insolvency Proceeding**”) direct all matters relating thereto, including without limitation, (a) all matters relating to any claim in connection with an Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment made with respect to the Obligations (a “**Preference Claim**”) of any amount paid by the Obligor, (b) the direction of any appeal of any order relating to any Preference Claim at the expense of FSA but subject to reimbursement as provided in the Financial Guarantee and Indemnity Agreement and (c) the posting of any surety or performance bond pending any such appeal.

- (vi) Payment should be made in pounds sterling (subject to paragraph 12 of Endorsement No. 1 of the Financial Guarantee) by wire transfer direct to [SPECIFY ACCOUNT].

Unless the context otherwise requires, capitalised terms used in this notice of demand and not defined herein shall have the meaning provided in the Financial Guarantee and any endorsement thereto.

IN WITNESS WHEREOF this Notice of Demand has been executed and delivered as a deed by the Holder as of the _____ day of _____

Executed as a deed by _____)
BARCLAYS BANK PLC)
Authorised Signatory)

Title: _____

For FSA or Fiscal Agent Use Only

Wire transfer sent on _____ By: _____

Confirmation Number: _____

DESCRIPTION OF FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

For the purposes of the section only, FSA will mean Financial Security Assurance Inc. rather than Financial Security Assurance (U.K.) Limited.

FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

General

Financial Security Assurance (U.K.) Limited is an indirect, wholly owned subsidiary of Financial Security Assurance Inc. (“**FSA**”), a monoline insurance company incorporated on March 16, 1984 under the laws of the State of New York. FSA received its New York State insurance licence and commenced operations on September 23, 1985 and is authorized, directly or through its subsidiaries, to engage in financial guarantee insurance business in the United Kingdom, all 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. Financial Security Assurance (U.K.) Limited was incorporated with limited liability in England on June 8, 1990 under the Companies Act 1985 with registered number 2510099, and became authorised to transact financial guarantee insurance business in the United Kingdom on April 29, 1994. Pursuant to certain European Union Insurance Directives, Financial Security Assurance (U.K.) Limited is authorised to provide financial guarantee insurance for transactions in other European Union member countries from its home office in the United Kingdom. Financial Security Assurance (U.K.) Limited’s registered office is located at 1 Angel Court, London EC2R 7AE, England and its telephone number is +44(0) 20 7796 4646. Financial Security Assurance (U.K.) Limited has no subsidiaries and Financial Security Assurance (U.K.) Limited is both its legal and commercial name.

FSA and its subsidiaries, including Financial Security Assurance (U.K.) Limited, are engaged exclusively in the business of writing financial guarantee and related lines of insurance, principally in respect of securities sold in public offerings and private placements and obligations under credit default swaps. Financial guarantee insurance provides a guarantee of scheduled payments on an issuer’s obligations, thereby enhancing the credit rating of those obligations, in consideration for the payment of a premium to the insurer. FSA and its subsidiaries principally insure asset-backed, collateralised and municipal obligations. Asset-backed obligations are typically supported by residential mortgage loans, consumer or trade receivables, securities or other assets having an ascertainable cash flow or market value. Collateralised obligations include public utility first mortgage bonds and sale/leaseback obligation bonds. Municipal obligations include general obligation bonds, special revenue bonds and other special obligations of state and local governments. Obligations may be insured on a funded basis through insurance of bonds or other securities or on an unfunded basis through insurance of credit default swaps referencing one or more bonds or other obligations (with or without a deductible or other provision for loss reduction). FSA and its subsidiaries insure both newly issued securities sold in the primary market and outstanding securities sold in the secondary market that satisfy FSA’s underwriting criteria.

The premium is payable up front and is non-refundable or payable in instalments over the term of the guarantee. Financial guarantee insurance as written by Financial Security Assurance (U.K.) Limited differs from other types of insurance including credit and mortgage guarantee insurance, which rely on actuarial assessments of expected losses. Actuarially based insurance relies principally on an assumption that premiums and investment income will exceed expected losses over a range of business over a number of years. Financial guarantee insurance as written by Financial Security Assurance (U.K.) Limited relies on an assessment of the adequacy of various levels of security to meet debt service in a specific transaction without regard to premiums paid or income from investment of premiums. This method of risk underwriting is generally referred to as “underwriting to a no-loss standard”. As such, Financial Security Assurance (U.K.) Limited’s financial guarantee insurance policies are generally used

to improve the marketability of high quality obligations, rather than to protect against significant expected losses on low quality obligations. Officers of Financial Security Assurance (U.K.) Limited responsible for credit underwriting must conclude that the overall structure of each transaction is of investment grade quality. Financial Security Assurance (U.K.) Limited has developed operating procedures for direct financial guarantee insurance transactions which its management believes will maintain its underwriting standards. Each individual transaction must be approved by the Credit Committee of the board of directors of Financial Security Assurance (U.K.) Limited, who must conclude that the transaction is of investment grade quality. The Credit Committee includes executive officers Messrs. Cochran, McCarthy, McCormick, Brewer and Stern.

Financial Security Assurance (U.K.) Limited is a direct, wholly-owned subsidiary of FSA Insurance Company, an Oklahoma corporation, which in turn is a direct, wholly-owned subsidiary of FSA. FSA also holds (indirectly) a majority shareholding in Financial Security Assurance International Ltd., a Bermuda company engaged in insurance and reinsurance. FSA is a direct, wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. ("**Holdings**"), a New York corporation. Holdings is an indirect subsidiary of Dexia S.A., a Belgian corporation whose shares are traded in the Euronext Brussels and Euronext Paris markets as well as on the Luxembourg Stock Exchange. Dexia S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is obligated to pay any debt of Financial Security Assurance (U.K.) Limited or any claim under any financial guarantee insurance policy issued by Financial Security Assurance (U.K.) Limited or to make any additional contribution to the capital of Financial Security Assurance (U.K.) Limited.

Reinsurance and Other Agreements

Pursuant to an intercompany agreement among FSA, FSA Insurance Company and Financial Security Assurance International Ltd., and quota share and stop loss reinsurance agreements between FSA and Financial Security Assurance (U.K.) Limited (the "**Intercompany Agreements**"), liabilities on financial guarantee insurance policies issued by FSA or any of its subsidiaries, including Financial Security Assurance (U.K.) Limited, are generally reinsured among such companies on an agreed-upon percentage substantially proportional to their respective capital, surplus and reserves, subject to applicable statutory risk limitations. In addition, FSA and its subsidiaries reinsure a portion of their liabilities under certain financial guarantee insurance policies with other reinsurers under various treaties and on a transaction-by-transaction basis. Such reinsurance is utilised as a risk management device and to comply with statutory and rating agency requirements; it does not alter or limit the obligations under any financial guarantee insurance policy.

In addition, the Intercompany Agreements contain "**stop loss**" provisions that generally require FSA to make payments to Financial Security Assurance (U.K.) Limited when Financial Security Assurance (U.K.) Limited's loss and expense ratio exceeds 100 per cent. Under these provisions, FSA will reimburse Financial Security Assurance (U.K.) Limited for the amount by which annual net losses incurred (paid losses plus any increase in loss reserves, net of reinsurance) plus expenses exceed the sum of annual net earned premiums plus any draws during the year on its contingency reserves used to pay losses. This stop loss cover has an annual limit of liability equal to 20 per cent. of Financial Security Assurance (U.K.) Limited's net retained principal outstanding plus the net principal insured outstanding at last year-end of Financial Security Assurance (U.K.) Limited's two largest transactions.

Pursuant to a net worth maintenance agreement between FSA and Financial Security Assurance (U.K.) Limited (the "**Net Worth Maintenance Agreement**"), FSA is required to cause Financial Security Assurance (U.K.) Limited to maintain free assets of £10,000,000, or such greater amount as may be required by the Financial Services and Markets Act 2000 and regulations made under that Act, provided that (i) any contributions by FSA may not exceed 35 per cent. of its policyholders' surplus on an

accumulated basis as determined under the laws of the State of New York, (ii) no contribution will be made which would have the effect of jeopardising FSA's insurance financial strength rating from Moody's Investors Service, Inc. ("**Moody's**") or its insurer financial strength rating from Standard & Poor's Ratings Services ("**S&P**") and (iii) any contribution must be made in compliance with Section 1505 of the New York Insurance Law.

Financial Security Assurance (U.K.) Limited is dependent upon FSA in that, as a party to the Intercompany Agreements and the Net Worth Maintenance Agreement, FSA agrees to support Financial Security Assurance (U.K.) Limited in the manner described above. In addition, FSA supports Financial Security Assurance (U.K.) Limited more generally, including providing certain outsourcing services and secondees, in each case, on an arm's length basis.

Financial Security Assurance (U.K.) Limited has not entered into contracts outside the ordinary course of Financial Security Assurance (U.K.) Limited's business which could result in Financial Security Assurance (U.K.) Limited (or any of FSA or its subsidiaries) being under an obligation or entitlement that is material to Financial Security Assurance (U.K.) Limited's ability to meet its obligation to Noteholders in respect of the Notes being issued.

Ratings

Financial Security Assurance (U.K.) Limited's financial strength is rated "AAA" (or, as the case may be, "Aaa") by Fitch Ratings, Moody's, S&P and Investment Information, Inc. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

Payment of scheduled payments on the Notes will be guaranteed by Financial Security Assurance (U.K.) Limited only to the extent set out in the Notes Financial Guarantee and will not be guaranteed by FSA. The information relating to FSA is included for purposes of information only.

Copies of the annual financial statements filed by Financial Security Assurance (U.K.) Limited with the Financial Services Authority and filed annually with the Registrar of Companies in England are available upon request to Financial Security Assurance (U.K.) Limited at its registered office. Copies of the statutory quarterly and annual statements filed by FSA are available upon request to FSA at its office, 31 West 52nd Street, New York, New York 10019, USA. Copies of financial statements of FSA prepared in accordance with generally accepted accounting principles are available upon request to FSA at the same address and also may be reviewed at the FSA website, www.fsa.com. For the avoidance of doubt, the information contained on such website shall not form part of this Prospectus.

The principal executive officers of Financial Security Assurance (U.K.) Limited are identified below:

Name	Office Held
Philippe Z. Tromp	Managing Director
Robert P. Cochran	Chairman and Senior Manager
Bruce E. Stern	Senior Manager, General Counsel and Secretary
Laura Bieling	Financial Controller
Edsel C. Langley, Jr.	Treasurer
Russell B. Brewer II	Senior Manager
Séan W. McCarthy	Senior Manager
Thomas J. McCormick	Senior Manager

The directors of Financial Security Assurance (U.K.) Limited and their principal occupations are identified below:

Name	Function	Principal Occupation
Terence K. Bridgman	Non-Executive	Retired Chief Executive Officer, NCM Credit Insurance Ltd.
Robert P. Cochran	Executive	Chairman and Chief Executive Officer, Financial Security Assurance Inc.
W. Peter Cooke	Non-Executive	Retired Advisor, PricewaterhouseCoopers LLP
Bruno Deletré	Non-Executive	Member of the Executive Board, Dexia Credit Local
Michael S. Horn	Non-Executive	Managing Director, Financial Security Assurance Inc. (Singapore Branch)
Michael D. McCarthy	Non-Executive	Retired Partner, Goldman, Sachs & Co.
Séan W. McCarthy	Executive	President and Chief Operating Officer, Financial Security Assurance Inc.
Thomas J. McCormick	Executive	Managing Director, Financial Security Assurance Inc.
François Plantureux	Non-Executive	International Development Advisor, Dexia Credit Local
Philippe Z. Tromp	Executive	Managing Director, Financial Security Assurance (U.K.) Limited

The business address of each of the directors mentioned above is 1 Angel Court, London EC2R 7AE.

As at the date of this Prospectus, the above-mentioned members of the board of directors of the Financial Security Assurance (U.K.) Limited do not have potential conflicts of interests that are material to the Notes, between any duties to Financial Security Assurance (U.K.) Limited and their private interests or other duties.

Insurance Regulation

In the conduct of its insurance business in and from the United Kingdom, Financial Security Assurance (U.K.) Limited is subject to governmental regulatory requirements under the Financial Markets and Services Act 2000, and all regulations made pursuant thereto (together, the “**Regulations**”), administered by the Financial Services Authority.

Under the Regulations, Financial Security Assurance (U.K.) Limited is subject to certain limits and requirements, including (i) the maintenance of a minimum margin of solvency, (ii) the establishment of equalisation reserves, (iii) the determination of the amount of its liabilities in accordance with generally accepted accounting principles for insurers, (iv) the identification and prudent provision of assets to cover these liabilities, and (v) the matching of its liabilities in a particular currency by assets in the same currency (if this liability exceeds 5 per cent. of Financial Security Assurance (U.K.) Limited’s total liabilities).

FSA is licensed and subject to regulation as a financial guarantee insurance corporation under the laws of the State of New York, its state of domicile. In addition, FSA and its insurance subsidiaries are subject to regulation by insurance laws of the various other jurisdictions in which they are licensed to do business. As a financial guarantee insurance corporation licensed to do business in the State of New York, FSA is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of each such insurer to financial guarantee insurance and related lines (residual value, surety and credit insurance), requires that each such insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements, and limits the size of individual transactions (“**single risks**”) and the volume of transactions (“**aggregate risks**”) that may be underwritten by each such insurer. Other provisions of the New York Insurance Law, applicable to non-life insurance companies such as FSA, regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liability for borrowings.

Capitalisation

The following table sets forth the capitalisation of Financial Security Assurance (U.K.) Limited extracted without material adjustment from the audited financial statements as of 31 December 2004, prepared on the basis of generally accepted accounting principles in the United Kingdom (“**UK GAAP**”) as of 31 December 2004:

	31 December 2004
	<i>(audited)</i>
	£'000
Capital and reserves	
Called up share capital.....	10,000
Other reserves.....	19,529
Profit and loss account.....	(5,730)
Shareholder funds – equity interests	<u>23,799</u>

Notes:

- (1) The issued share capital comprises 10,000,000 ordinary shares of £1 each fully paid. The authorised share capital is 20,000,000.
- (2) On 31 December 2004, Financial Security Assurance (U.K.) Limited did not have any loan capital outstanding or created but unissued, term loans or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptance credits, mortgages, charges, finance lease commitments, hire purchase obligations, guarantees or contingent liabilities.

There has been no significant change in the financial or trading position of Financial Security Assurance (U.K.) Limited, nor material adverse change in the prospects of Financial Security Assurance (U.K.) Limited, since 31 December 2004, being the date of its last published audited financial statements.

Financial information for the years ended 31 December, 2003 and 2004

The financial information set out in the Appendix to this Prospectus has been extracted from the audited accounts of Financial Security Assurance (U.K.) Limited prepared in accordance with UK Generally

Accepted Accounting Principles (“**UK GAAP**”) for the years ended 31 December, 2003 and 2004. References in the Appendix (i) to the “Company” are to the Financial Security Assurance (U.K.), (ii) to the “Parent” are to FSA Insurance Company and (iii) to page numbers are to the pages of the original accounts and not to the pages of this Prospectus.

GENERAL INFORMATION

- (1) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by resolutions of the Board of Directors passed on 22 September 2005.
- (2) Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since its date of incorporation on 13 June 2001.
- (3) Save, as disclosed herein, there has been no significant change in the financial or trading position of FSA and no material adverse change in the financial position or prospects of FSA, in each case, since 31 December 2004.
- (4) The Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus that may have, or have had in the recent past, a significant effect, in the context of the issue of Notes on its financial position or profitability.
- (5) FSA is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which FSA is aware), during the 12 months preceding the date of this Prospectus that may have, or have had in the recent past, a significant effect, in the context of the issue of Notes on its financial position or profitability.
- (6) PricewaterhouseCoopers LLP as auditors to FSA (chartered accountants, registered auditors and a member of the Institute of Chartered Accountants), have audited the financial statements of FSA for the years ended 31 December 2003 and 31 December 2004 from which the extracts contained in the Appendix originate.
- (7) Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".
- (8) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems.
- (9) For so long as the Notes are outstanding (in respect of 7(a) to 7(h)) and for so long as the Notes are listed, from the date of the relevant document (in respect of 7(i) and 7(j)), the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified office of AIB International Financial Services Limited:
 - (a) the Principal Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);
 - (b) the Dealer Agreement;
 - (c) the Agency Agreement;
 - (d) the Memorandum and Articles of Association of the Issuer;
 - (e) the Instrument of Trust;
 - (f) a copy of this Prospectus together with any document incorporated by reference in this Prospectus;

- (g) the Subscription Agreement (if any) and the related Supplemental Trust Deed, Swap and the Financial Guarantees;
- (h) the Original Securities Prospectus;
- (i) all audited annual financial statements of the Issuer as and when published; and
- (j) the most recently publicly available audited financial statements of FSA for the 2 years ended 2004.

For as long as the Notes are listed a copy of this Prospectus will be available on the website of the Irish Financial Services Regulatory Authority.

**APPENDIX – FINANCIAL INFORMATION RELATING TO FINANCIAL SECURITY
ASSURANCE (U.K.) LIMITED**

Financial Security Assurance (U.K.) Limited

Annual Report

For the Year Ended 31 December 2003

Registered no: 2510099

Financial Security Assurance (U.K.) Limited

Annual Report for the year ended 31 December 2003

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Directors and advisers

Executive directors

Robert Phillips Cochran
Chairman & Senior Manager

Philippe Zoetelief Tromp
Managing Director

Thomas Joseph McCormick
Senior Manager

Séan Wallace McCarthy
Senior Manager

Non-executive directors

Terence Keith Bridgman

William Peter Cooke

Bruno Yves Marie René Deletré

Richard George Holzinger

Michael David McCarthy

François Plantureux

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

Principal activities and results

The results and the transfers to reserves for the year are detailed in the Technical and Non-Technical Loss Accounts on pages 6 and 7.

Financial Security Assurance (U.K.) Limited (the "Company") is a wholly owned subsidiary of FSA Insurance Company (the Parent), which in turn is wholly owned by Financial Security Assurance Inc. ("FSA"). FSA, which along with its subsidiaries are collectively referred to herein as the "Group", is a monoline financial guarantee insurance company domiciled in New York, USA. On 5 July 2000, Dexia S.A. ("Dexia"), a publicly-held Belgium corporation acquired, indirectly through wholly-owned subsidiaries, 100% of the shares of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), which

Financial Security Assurance (U.K.) Limited

wholly-owns FSA, and thus became the ultimate holding company of the Company. As of 31 December 2003, Dexia owned 98.98% of FSA Holdings.

The principal activity of the Company is the provision of financial guarantee insurance for European Community municipal and asset-backed obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligations when there is a payment default by the obligor.

Review of business and future developments

The Company is authorised to carry on classes 14, 15 and 16 general insurance business. The insurance/insurer financial strength or claims paying ability of the Company is rated Aaa by Moody's Investors Service, Inc. and AAA by Fitch Ratings and Standard and Poor's Ratings Services, due in part to its reinsurance agreement and net worth maintenance agreement with FSA.

The Company is a party to a cooperative agreement with FSA for joint use of FSA's personnel and property. As such, the Company has no fixed assets but is allocated a portion of FSA's cost for personnel and services in accordance with the agreement. This agreement was in effect throughout 2003.

The Company during 2003 was a party to a reinsurance agreement and a net worth maintenance agreement with FSA. Under the quota share cover of the reinsurance agreement, FSA reinsured in 2003 approximately 99% of the Company's retention after cessions by FSA UK to outside reinsurers. FSA in turn cedes this business to the Parent and Financial Security Assurance International Ltd., a wholly owned subsidiary of the Parent. The Company does not assume any business from FSA or its affiliates. Under the "stop loss" cover of the reinsurance agreement, FSA is required to make payments to the Company when the Company's annual net incurred losses and expenses exceeds the Company's annual net earned premium plus any amounts deducted from the Company's equalisation reserve during the year losses. The stop loss cover has an annual limit of liability equal to 20% of the Company's net principal insured outstanding at the prior year-end plus the net principal insured outstanding at last year-end of the Company's two largest transactions. Under the net worth maintenance agreement, FSA is obligated to cause the Company to maintain free assets of £10,000,000, or such greater amount as may be required by the UK insurance regulator, provided that contributions do not exceed more than 35% of FSA's policyholders' surplus on a cumulative basis, do not jeopardise FSA's insurer/insurance financial strength rating from Moody's Investors Service, Inc. or Standard & Poor's Ratings Services, and are in compliance with Article 15 of the New York Insurance Law. Accordingly, on 26 March 2004 FSA injected £6,000,000 of additional assets into the Company in order to maintain sufficient free assets.

In addition to being licensed to transact insurance business in the UK, the Company is authorised under the EU insurance directives to provide insurance services in Belgium, France, Germany, Greece, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal and Spain from its home office in London.

Financial Security Assurance (U.K.) Limited

During 2003, the Company built on its book of business and closed a number of transactions in the areas of infrastructure and structured finance. The Company had a particularly successful year in the UK infrastructure finance market. The Company expanded its participation in the UK PFI sector with the successful completion of the highly visible £515 million transaction for the London Underground, and the £165 million financing of the Treasury building. The Company was also involved in £306 million refinancing of Norfolk and Norwich Hospital, one of the earlier NHS Trust hospital projects completed under the UK PFI programme. In addition, the Company guaranteed the financing of non-PFI infrastructure projects in the UK water utility and electricity transmission sectors.

The Company continued to develop its presence in Continental Europe. In Italy, it guaranteed the first hospital financed under the government-sponsored Public Private Partnership programme. The Company also made excellent progress on a number of newly mandated transactions that are expected to close in 2004.

In structured finance, the Company was also successful at originating a mandate for a large synthetic securitisation of prime residential mortgage loans for a European bank. The transaction is due to close in 2004. The Company intends to continue to develop its activities in synthetic securitisations both in the UK and on the Continent.

Dividends

The directors do not recommend the payment of a dividend (2002 £nil).

Financial Security Assurance (U.K.) Limited

Directors

The directors of the Company are listed below:

	<u>Appointed</u>
Executive Directors	
Robert Phillips Cochran, Chairman & Senior Manager	June 1991
Philippe Zoetelief Tromp, Managing Director	July 1994
Séan Wallace McCarthy, Senior Manager	October 2001
Thomas Joseph McCormick, Senior Manager	September 1996
Non-executive Directors	
Terence Keith Bridgman	November 1993
William Peter Cooke	November 1993
Bruno Yves Marie René Deletré	November 2001
Richard George Holzinger	January 2001
Michael David McCarthy	June 1999
Patrick Henry O'Sullivan *	July 2002
François Plantureux	November 2001

*Resigned effective 29 January 2003

According to the Register maintained under Section 325 of the Companies Act, 1985, no director has any beneficial interest in shares or debentures of the Company or the Group.

The Company's ultimate parent, Dexia, maintains liability insurance coverage on behalf of the directors and officers of the Company.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP), from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

By order of the board

Bruce E. Stern
Company Secretary

Financial Security Assurance (U.K.) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies in Note 1.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements 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 financial statements, 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
30 March 2004

Financial Security Assurance (U.K.) Limited

Loss account technical account for the year ended 31 December 2003

	Note	2003 £	2002 £
Earned premiums, net of reinsurance			
Gross premiums written	1	67,636,137	48,438,410
Outward reinsurance premiums	1	<u>(67,294,203)</u>	<u>(48,156,133)</u>
Net premiums written	1	341,934	282,277
Change in the gross provision for unearned premiums	1	(54,487,100)	(39,729,749)
Change in the provision for unearned premiums, reinsurers' share		<u>54,244,073</u>	<u>39,524,442</u>
Change in the net provision for unearned premiums		<u>(243,027)</u>	<u>(205,307)</u>
Earned premiums, net of reinsurance	1	98,907	76,970
Claims incurred, net of reinsurance			
Net operating expenses	3	<u>(1,250,081)</u>	<u>(1,795,283)</u>
Balance on the technical account for general business		<u>(1,151,174)</u>	<u>(1,718,313)</u>

All operations are continuing

The notes on pages 10 to 18 form part of these accounts.

Auditors' report - page 5

Financial Security Assurance (U.K.) Limited
Loss account non-technical account
for the year ended 31 December 2003

	Note	2003 £	2002 £
		<u> </u>	<u> </u>
Balance on the technical account for general business		(1,151,174)	(1,718,313)
Investment income	4	1,007,957	1,291,665
Unrealised gains on investments	4	-	172,060
Investment expenses and charges	5	(20,774)	(19,256)
Unrealised losses on investments	4	(2,849,438)	-
Other income/(charges)	14	<u>1,268,616</u>	<u>(1,142,610)</u>
Loss on ordinary activities before tax		(1,744,813)	(1,416,454)
Tax on loss on ordinary activities	9	<u>157,769</u>	<u>80,889</u>
Loss on ordinary activities after tax		<u>(1,587,044)</u>	<u>(1,335,565)</u>
Retained loss for the financial year		<u>(1,587,044)</u>	<u>(1,335,565)</u>

The notes on pages 10 to 18 form part of these accounts.

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Financial Security Assurance (U.K.) Limited

Statement of total recognised gains and losses for the year ended 31 December 2003

	2003	2002
	£	£
Note	<u> </u>	<u> </u>
Loss for the financial year	(1,587,044)	(1,335,565)
Total recognised losses relating to the year	(1,587,044)	(1,335,565)
Prior year FRS 19 adjustment	12 -	1,316,214
Total gains and losses recognised since last annual report	<u>(1,587,044)</u>	<u>(19,351)</u>

The notes on pages 10 to 18 form part of these accounts.

Auditors' report - page 5

Financial Security Assurance (U.K.) Limited
Balance sheet
at 31 December 2003

	Note	2003 £	2002 £
Assets			
Investments			
Other financial investments	10	29,749,345	20,826,891
Reinsurers' share of technical provisions			
Provision for unearned premiums		142,999,495	88,755,422
Debtors			
Debtors arising out of insurance operations		1,476,320	12,080,565
Debtors arising out of reinsurance operations		2,305,623	3,426,517
Other debtors	11	3,397,029	932,083
Deferred tax asset	12	<u>6,599,486</u>	<u>3,535,944</u>
		13,778,458	19,975,109
Other Assets			
Cash at bank and in hand		2,983,750	26,930
Prepayments and accrued income			
Accrued interest		137,353	31,441
Deferred acquisition costs		<u>20,834,415</u>	<u>17,425,612</u>
		<u>20,971,768</u>	<u>17,457,053</u>
Total assets		<u>210,482,816</u>	<u>147,041,405</u>
Liabilities			
Capital and reserves			
Called up share capital	15	10,000,000	10,000,000
Other reserves	16	6,029,109	6,029,109
Profit and loss account	16	<u>(2,351,167)</u>	<u>(764,123)</u>
Shareholder funds - equity interests		13,677,942	15,264,986
Technical provisions			
Provision for unearned premiums	1	<u>143,838,071</u>	<u>89,347,050</u>
		143,838,071	89,347,050
Creditors			
Creditors arising out of direct insurance operations	13	8,757,253	6,147,671
Other creditors including taxation and social security	13	<u>10,134,507</u>	<u>12,893,108</u>
		18,891,760	19,040,779
Accruals and deferred income			
Deferred ceding commissions		<u>34,075,043</u>	<u>23,388,590</u>
Total liabilities		<u>210,482,816</u>	<u>147,041,405</u>

The financial statements on pages 6 to 18 were approved by the Board of Directors on 30 March 2004 and were signed on its behalf by:

Director: _____

The notes on pages 10 to 18 form part of these accounts.

Auditors' report - page 5

Financial Security Assurance (U.K.) Limited

Notes to the financial statements

for the year ended 31 December 2003

1. Principal accounting policies

The accounts have been prepared in accordance with the applicable Accounting Standards in the United Kingdom. The financial statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998 except for a literal application of the accounting guidance for instalment premiums written and related receivables, unearned premiums, and effects of outward reinsurance and related ceding commission receivable. (Refer to note 1(a) below.)

The Company underwrites financial guarantee business. The technical result for this line of business is determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premium income

The policy for premium recognition is dependent on the timing of the collection of premiums.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception, and earned in the technical account over the life of the contract.

(ii) Where a premium is received in instalments, it is recognised as written on the date the instalment falls due, and earned over the period to the next instalment date. The Company believes that the inherent uncertainty of collecting the full instalment premiums receivable over the life of the contract for reasons other than default, and hence the ultimate premium receivable, means that it would not be appropriate to recognise the future total potential premiums written at the date of inception, the related receivable, unearned premiums, and outward reinsurance effects.

Instalment premium arrangements are typically associated with project financing and infrastructure transactions and asset-backed transactions. Instalment premiums are collected over the term of the related guaranteed obligation and may extend beyond 30 years. The Company's policy is to recognize written premiums on instalment arrangements as written on the date the instalment falls due, in line with industry practice as it has been established in the UK. Premium earnings are not affected by this policy.

The full value (not discounted to present value) of instalment premiums to be collected in the future at 31 December 2003, based on projected debt principal outstanding and current contractual premium rates amounted to £72,308,392.

(b) Unearned premiums

Unearned premiums and prepaid reinsurance premiums relate to unexpired terms of policies in force at the balance sheet date. Premiums written are initially deferred and then earned in accordance with the incidence of risk.

(c) Claims

Since commencing business, the Company has had no claims. Claims incurred comprise claims and related claims expenses paid in the year and the change in provisions for outstanding claims. The provision for unpaid claims and direct claims expenses net of anticipated reinsurance recoveries is recorded when an insured risk is in default at the balance sheet date or when, in management's opinion, the likelihood of default is probable and determinable at the balance sheet date. When

Financial Security Assurance (U.K.) Limited

Notes to the financial statements

for the year ended 31 December 2003

appropriate, the provision is discounted to its present value. A substantial measure of experience and judgment is involved in assessing outstanding losses, the ultimate cost of which cannot be known with certainty at a balance sheet date. The gross insurance provisions and related reinsurance recoveries are determined on the basis of information currently available; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(d) Acquisition costs and ceding commission income

Acquisition costs incurred, which represent underwriting costs, and ceding commission income received at policy issuance are deferred, subject to recoverability, and amortised over the period in which the related premiums are earned.

(e) Foreign currencies

Transactions in foreign currencies are translated to sterling at the rate ruling at the date the transaction is made, or when an instalment is received. Assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Differences arising on exchange are dealt with in the non-technical account.

(f) Investment income and expenses

Investment income is stated on an accrual basis and includes realised gains on the sale of investments. Investment expenses and charges include realised losses on the sale of investments.

(g) Unrealised investment gains or losses

Unrealised investment gains or losses are shown in the non-technical account.

(h) Taxation

The charge for taxation is based on the result for the year. The full provision method for deferred taxation is made on timing differences. Timing differences arise on items of income, expenditure and changes in value of investments which are recognised for tax purposes in different periods from those in which they are recognised in the profit and loss account. Deferred tax assets are recognised only to the extent the Company believes more likely than not they will be recovered.

(i) Investments

Investments in redeemable securities investments are stated in the balance sheet at market value.

(j) Unexpired risks provision

Provision for unexpired risks is made where the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums, after taking into account future investment income. The expected claims are calculated having regards to events that have occurred prior to the balance sheet date.

(k) Pension costs

The Company maintains non-contributory defined contribution pension plans for the benefit of eligible employees. Pension expense is recorded as incurred and is funded annually, or more frequently in accordance with the respective plan's requirements.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

2. Segmental information

There is only one business segment, that of financial guarantee business. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

	2003		2002
	£		£
Gross written premium			
UK	63,875,156		27,779,408
Europe, excluding UK	3,381,613		20,272,008
US	<u>379,368</u>		<u>386,994</u>
Total gross written premium	<u>67,636,137</u>		<u>48,438,410</u>
Gross earned premium		<u>13,149,037</u>	<u>7,068,000</u>
Gross operating expenses		<u>(19,257,946)</u>	<u>(13,555,298)</u>
Reinsurance balance		<u>4,957,735</u>	<u>3,128,324</u>

3. Net operating expenses

	2003	2002
	£	£
Acquisition costs	(7,511,117)	(5,902,286)
Changes in deferred acquisition costs	(8,599,853)	(5,137,446)
Administration expenses	(3,146,976)	(2,515,566)
Reinsurance commissions	<u>18,007,865</u>	<u>11,760,015</u>
Net operating expenses	<u>(1,250,081)</u>	<u>(1,795,283)</u>

All reinsurance commissions above were related to direct business written.

4. Investment income and expenses

Investment activity account	2003	2002
	£	£
Investment income	961,051	966,328
Realised investment gains	102,640	332,051
Investment management charges including interest	(20,774)	(19,256)
Realised investment losses	(55,734)	(6,714)
Movement in unrealised gains and (losses)	<u>(2,849,438)</u>	<u>172,060</u>
Net investment return	<u>(1,862,255)</u>	<u>1,444,469</u>

The investment return has been dealt with in full within the non-technical account. Unrealised foreign exchange losses of £2,568,132 and gains of £19,024 are included in movement in unrealised gains and losses for the year ended 31 December 2003 and 2002, respectively. These gains and losses arose as a result of the movement in the value of the U.S. dollar.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

5. Investment expenses and charges

	2003	2002
	£	£
Investment management charges	<u>(20,774)</u>	<u>(19,256)</u>

6. Employee information

There are no direct employees of the Company. Employees of FSA are seconded to the Company pursuant to an agreement with FSA for cooperative and joint use of personnel. The average number of employees seconded to the Company during both 2003 and 2002 was 44, 33 professional and 11 support staff in 2003 and 30 professional and 14 support staff in 2002.

After one year of service, employees of FSA are eligible to participate in the non-contributory defined contribution pension scheme that FSA sponsors. The contributions made by the Company on behalf of its employees to the pension scheme are based on pension costs across the Group as a whole. While the scheme is non-contributory, employees may elect to add their own personal contributions based upon their salary level and age.

The total allocated staff cost for the above employees under the agreement with FSA was:

	2003	2002
	£	£
Wages and salaries	5,439,982	4,220,697
Pension costs	371,499	433,000
Social security costs	<u>640,839</u>	<u>160,454</u>
	<u>6,452,320</u>	<u>4,814,151</u>

7. Directors' emoluments

During the year the Company had six non-executive directors, two of whom were paid £5,000 per annum in 2003 and 2002 for their services and one director was paid £15,300 and £16,300 in 2003 and 2002, respectively. No other compensation is paid to them nor are they party to any retirement, long-term incentive, option or any other benefit plan.

Of the four executive directors, one, the highest paid director, is paid by the Company for his services. During 2003 and 2002, this director was paid £418,000 and £256,000 in compensation, respectively, and the Company made defined contributions of £17,500 for each year on behalf of this director. During 2003 and 2002, this director received long-term incentive payments of £115,000 and £51,000, respectively. The remaining three executive directors are paid by another Group company for services rendered to other Group companies but there is no recharge to the Company.

No director waived emoluments in respect of the years ended 31 December 2003 and 2002.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

8. Profit (loss) on ordinary activities before tax

There are no fixed assets owned by the Company, however, the Company does have an agreement with FSA for cooperative and joint use of property, and as such was allocated a depreciation charge of £134,055 and £ 187,840 for 2003 and 2002, respectively. In 2003, audit fees of £ 28,500 (£ 31,000 in 2002) were incurred by the Company. Also in 2003, the Company paid non-audit fees of £ 285,723 (£ 248,000 in 2002) to PricewaterhouseCoopers LLP. The Company closely monitors all work performed by its auditors to ensure that their independence is not compromised.

9. Tax on profit/(loss) of ordinary activities and on recognised gains and losses

The Company has made an election with the Internal Revenue Service pursuant to Section 953(d) of the Internal Revenue Code. Section 953(d) allows certain foreign insurance companies to elect to be treated as a U.S. corporation for federal income tax purposes. The impact of the election is that the Company will be taxed as a U.S. corporation subject to tax on its worldwide income, subject to a credit for any taxes paid to a foreign jurisdiction. The current US federal tax rate is 35% as compared with a 30% rate in the U.K.

Tax on profit of ordinary activities:

	2003	2002
	£	£
UK Corporation Tax		
Current	(60,027)	60,027
Deferred	(360,771)	332,179
Overseas Corporation Tax		
Current year	(3,379,258)	(2,392,604)
Deferred	<u>3,957,825</u>	<u>2,081,287</u>
	<u>157,769</u>	<u>80,889</u>

A reconciliation between the current tax provision and that expected from the statutory U.K. tax rate of 30% is as follows:

	December 31,	December 31,
	2003	2002
	£	£
Tax benefit at statutory rate	523,444	424,936
Permanent differences	350,589	(342,784)
Unrealized gains	(824,836)	51,618
Compensation benefits	(506,555)	(575,996)
Deferred acquisition cost	(2,485,394)	(1,531,764)
Meals & entertainment	(13,081)	(13,247)
Rate differential	(492,567)	(331,863)
Other	<u>9,115</u>	<u>(13,477)</u>
Provision for income taxes	<u>(3,439,285)</u>	<u>(2,332,577)</u>

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

10. Investments: other financial investments

	<u>2003</u>		<u>2002</u>	
	£		£	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
	<u>Value</u>		<u>Value</u>	
Debt securities and other fixed interest securities	<u>29,749,345</u>	<u>29,813,058</u>	<u>20,826,891</u>	<u>20,580,471</u>

All investments are listed.

At 31 December 2003 and 2002, the Company's change in unrealised loss of £281,306 and gain of £153,036, respectively, were recorded as components of the Company's non-technical profit and loss account.

11. Other Debtors

	<u>2003</u>	<u>2002</u>
	£	£
Amounts due from Group companies	3,347,830	-
Overseas corporation tax	-	872,056
UK corporation tax	-	60,027
Other	49,199	-
	<u>3,397,029</u>	<u>932,083</u>

12. Deferred tax liability/(asset)

The Company adopted the provisions of Financial Reporting Standard 19 (FRS 19), "Deferred Tax" as of 1 January 2002. Unlike its predecessor, SSAP 15, FRS 19 provides for the recognition of deferred tax assets if the Company believes more likely than not they will be recovered. Accordingly, the Company restated its year end 2001 balance sheet to include a net deferred tax asset of £1,316,214 upon the adoption of FRS 19.

Based on its past history of taxable profits and its projections for continued future taxable income, the Company believes that its deferred tax assets are more likely than not to be realised.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

The items that gave rise to the Company's net deferred tax assets are noted below:

Description	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	31 December	31 December	31 December	31 December	31 December	31 December
	2002	2003	2002	2003	2002	2003
Unrealised gains	0	0	86,247	0	86,247	0
Market Discounts	0	0	4,944	8,494	4,944	8,494
Deferred premium revenue adj.	0	0	5,891	0	5,891	0
Total deferred tax liabilities	0	0	97,082	8,494	97,082	8,494
Unrealised gains	0	0	0	(20,700)	0	(20,700)
Deferred premium revenue adj.	0	0	0	(1,993)	0	(1,993)
Deferred compensation	(926,005)	(547,393)	(504,864)	(1,282,824)	(1,430,869)	(1,830,217)
Deferred acquisition costs	0	0	(2,087,045)	(4,634,222)	(2,087,045)	(4,634,222)
Pension	(36,993)	(54,774)	(61,250)	(54,559)	(98,183)	(109,333)
Other, net	0	0	(16,929)	(11,515)	(16,929)	(11,515)
Total deferred tax assets	(962,938)	(602,167)	(2,670,088)	(6,005,813)	(3,633,026)	(6,607,980)
Net deferred tax asset	(962,938)	(602,167)	(2,573,006)	(5,997,319)	(3,535,944)	(6,599,486)

The movement in the net deferred tax assets is as follows:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	31 December	31 December	31 December	31 December	31 December	31 December
	2002	2003	2002	2003	2002	2003
As of 1 January	(630,759)	(962,938)	(685,455)	(2,573,006)	(1,316,214)	(3,535,944)
Movement in year	(332,179)	360,771	(2,081,287)	(3,957,825)	(2,413,466)	(3,597,054)
Translation Adjustment	0	0	126,658	533,512	126,658	533,512
Other	0	0	67,078	0	67,078	0
	(962,938)	(602,167)	(2,573,006)	(5,997,319)	(3,535,944)	(6,599,486)

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

13. Creditors

	2003	2002
	£	£
Amounts due to Group companies	9,652,657	4,697,638
Creditors arising out of direct insurance operations	8,757,253	6,147,671
Other creditors including taxation and social security	<u>481,850</u>	<u>8,195,470</u>
	<u>18,891,760</u>	<u>19,040,779</u>

14. Other income/(charges)

	2003	2002
	£	£
Foreign currency translation gain/(loss)	<u>1,268,616</u>	<u>(1,142,610)</u>

15. Share capital

Details of the Company's share capital are as follows:

	2003	2002
	£	£
Authorised:		
20,000,000 ordinary shares of £ 1 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued:		
10,000,000 ordinary shares of £ 1 each	<u>10,000,000</u>	<u>10,000,000</u>

16. Reserves

	Other Reserves	Profit and Loss Account
	£	£
At 1 January 2003	6,029,109	(764,123)
Retained loss for the year	<u>-</u>	<u>(1,587,044)</u>
At 31 December 2003	<u>6,029,109</u>	<u>(2,351,167)</u>

Other reserves consist of additional capital contributions made by the Parent and a tax adjustment. There is no intention to repay the capital contributions which are intended to be a permanent addition to the capital of the Company.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2003

17. Reconciliation of movements in shareholder's funds

	2003	2002
	£	£
Loss for the financial year	(1,587,044)	(1,335,565)
Opening shareholder's funds	<u>15,264,986</u>	<u>16,600,551</u>
Closing shareholder's funds	<u>13,677,942</u>	<u>15,264,986</u>

18. Ultimate and immediate holding company

The ultimate holding company at 31 December 2003 was Dexia, a publicly held Belgian corporation. The Company's immediate parent is FSA Insurance Company, incorporated in the State of Oklahoma, USA. Copies of Dexia consolidated annual report and copies of FSA Insurance Company's annual report may be obtained from Financial Security Assurance Holdings Ltd., Investor Relations, 350 Park Avenue New York, New York 10022, USA.

19. Cash Flow

Following the issue of the revision to FRS 1 "Cash Flow Statements" the Company has taken advantage of the exemption available to companies which are 90% owned and whose parent company accounts are publicly available. Accordingly, no cash flow statement has been included with the financial statements.

20. Related Party Transactions

As consolidated accounts are publicly available, the Company has taken advantage of the exemption in FRS8 not to disclose transactions and balances with related parties who are 90% owned within the same group.

21. Subsequent Event

In keeping with the net worth maintenance agreement that exists between the Company and FSA, £6,000,000 of additional assets were injected into the Company on 26 March 2004, in order to maintain the agreed upon free assets in the Company of £10,000,000.

Financial Security Assurance (U.K.) Limited

Annual Report

For the Year Ended 31 December 2004

Registered no: 2510099

Financial Security Assurance (U.K.) Limited

Annual Report for the year ended 31 December 2004

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Financial Security Assurance (U.K.) Limited

Directors and advisers

Executive directors

Robert Phillips Cochran
Chairman & Senior Manager

Philippe Zoetelief Tromp
Managing Director

Thomas Joseph McCormick
Senior Manager

Séan Wallace McCarthy
Senior Manager

Non-executive directors

Terence Keith Bridgman

William Peter Cooke

Bruno Yves Marie René Deletré

Michael Scott Horn

Michael David McCarthy

François Plantureux

Registered Auditors

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Financial Security Assurance (U.K.) Limited

Directors' report

for the year ended 31 December 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

Principal activities and results

The results and the transfers to reserves for the year are detailed in the Technical and Non-Technical Loss Accounts on pages 6 and 7.

Financial Security Assurance (U.K.) Limited (the "Company") is a wholly owned subsidiary of FSA Insurance Company (the Parent), which in turn is wholly owned by Financial Security Assurance Inc. ("FSA"). FSA, together with its subsidiaries are referred to herein as the "Group". FSA is a monoline financial guarantee insurance company domiciled in New York, USA. On 5 July 2000, Dexia S.A. ("Dexia"), a publicly-held Belgium corporation acquired, indirectly through wholly-owned subsidiaries, 100% of the shares of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), which wholly-owns FSA, and thus became the principal owner holding company of the Company. As of 31 December 2004, Dexia owned 98.97% of FSA Holdings.

The principal activity of the Company is providing financial guarantee insurance for European Community municipal and asset-backed obligations. Financial guarantee insurance written by the Company generally guarantees scheduled payments on an issuer's obligations when there is a payment default by the obligor.

Review of business and future developments

The Company is authorised to carry on classes 14, 15 and 16 general insurance business. The insurer financial strength or claims paying ability of the Company is rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AAA by Fitch Ratings and Standard & Poor's Ratings Services ("S&P"), due in part to its reinsurance agreement and net worth maintenance agreement with FSA.

The Company is party to a cooperative agreement with FSA for joint use of FSA's personnel and property. As such, the Company is allocated a portion of FSA's cost for personnel and services in accordance with the agreement. This agreement was in effect throughout 2004.

The Company during 2004 was party to a reinsurance agreement and a net worth maintenance agreement with FSA. In 2004, under the quota share cover of the reinsurance agreement, FSA reinsured approximately 99% of the Company's retention after cessions to outside reinsurers. FSA in turn cedes this business to the Parent and Financial Security Assurance International Ltd., a majority owned subsidiary of the Parent. The Company does not assume any business from FSA or its affiliates. Under the "stop loss" cover of the reinsurance agreement, FSA is required to make payments to the Company when the Company's annual net incurred losses and expenses exceeds the Company's annual net earned premium plus any amounts deducted from the Company's equalisation reserve during the year. The stop loss cover has an annual limit of liability equal to 20% of the net principal insured outstanding at the prior year-end, plus the net principal insured outstanding at last year-end of the Company's two largest transactions. Under the net worth maintenance agreement, FSA is obligated to cause the Company to maintain free assets of £10,000,000, or such greater amount as may be required by the UK insurance regulator, provided that contributions do not exceed more than 35% of FSA's policyholders' surplus, do not jeopardise FSA's insurer financial strength rating from

Financial Security Assurance (U.K.) Limited

Moody's or S&P, and comply with Article 15 of the New York Insurance Law. Accordingly, during 2004 FSA contributed £13,500,000 of additional assets to the Company in order to maintain sufficient free assets.

In addition to being licensed to transact insurance business in the UK, the Company is authorised under the EU insurance directives to provide insurance services in Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovenia and Spain from its home office in London.

During 2004, the Company built on its book of business and closed a number of transactions in the areas of infrastructure and structured finance. The Company had a successful year in the UK infrastructure finance market. The Company expanded its participation in the UK PFI sector with the completion of a £218 million financing for the Havering NHS Trust hospital located in Barking. The Company was also involved in a £88 million refinancing of the A130 shadow toll road in England. In addition, the Company guaranteed the financing of non-PFI infrastructure projects in the UK water utility and electricity transmission sectors. These areas were particularly active for the Company in 2004 with the closing of five transactions including four different water utilities and one in the electrical sector, for a total par amount of approximately £874.5 million.

The Company continued to develop its presence in Continental Europe. In Italy, it issued a guarantee in connection with a £165 million bond issue for a regional water utility. The Company also made excellent progress on a number of newly mandated transactions that are expected to close in 2005.

In structured finance, the Company was also successful at closing a number of transactions including two large synthetic securitisations of prime residential mortgage loans for European banks. The Company intends to continue to develop its activities in synthetic securitisations both in the UK and on the Continent.

Dividends

The directors do not recommend the payment of a dividend for 2004 (2003 £nil).

Financial Security Assurance (U.K.) Limited

Directors

The directors of the Company are listed below:

	<u>Appointed</u>
Executive Directors	
Robert Phillips Cochran, Chairman & Senior Manager	June 1991
Philippe Zoetelief Tromp, Managing Director	July 1994
Séan Wallace McCarthy, Senior Manager	October 2001
Thomas Joseph McCormick, Senior Manager	September 1996
Non-executive Directors	
Terence Keith Bridgman	November 1993
William Peter Cooke	November 1993
Bruno Yves Marie René Deletré	November 2001
Richard George Holzinger *	January 2001
Michael Scott Horn	March 2004
Michael David McCarthy	June 1999
François Plantureux	November 2001

*Resigned effective 18 March 2004

According to the Register maintained under Section 325 of the Companies Act, 1985, no director has any beneficial interest in shares or debentures of the Company. Seven directors do have interests in Group companies incorporated outside of the UK. The Company has taken advantage of the exemption under Statutory Instrument 1985/802 not to disclose the details of beneficial interests in group companies incorporated outside the UK.

FSA Holdings and the Company's ultimate parent, Dexia, maintain liability insurance coverage on behalf of the directors and officers of the Company.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period.

Except for a change in accounting policy for instalment premiums as discussed in Note 1 to the financial statements, the directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and accordingly a resolution to propose their re-appointment will be submitted at the annual general meeting.

By order of the board

Bruce E. Stern
Company Secretary

Financial Security Assurance (U.K.) Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FINANCIAL SECURITY ASSURANCE (U.K.) LIMITED

We have audited the financial statements which comprise the technical and non-technical accounts, the balance sheet and the related notes which have been prepared in accordance with the accounting policies set out in the statement of accounting policies in Note 1.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements 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 financial statements, 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Financial Security Assurance (U.K.) Limited

Technical account for the year ended 31 December 2004

	Note	2004 £	Restated 2003 £
Earned premiums, net of reinsurance			
Gross premiums written	1	78,111,507	93,028,911
Outward reinsurance premiums	1	<u>(77,690,753)</u>	<u>(92,591,891)</u>
Net premiums written	1	420,754	437,020
Change in the gross provision for unearned premiums	1	(61,052,223)	(79,827,604)
Change in the provision for unearned premiums, reinsurers' share		<u>60,751,996</u>	<u>79,489,491</u>
Change in the net provision for unearned premiums		<u>(300,227)</u>	<u>(338,113)</u>
Earned premiums, net of reinsurance	1	120,527	98,907
Claims incurred, net of reinsurance	1	-	-
Net operating expenses	3	<u>(2,268,110)</u>	<u>(1,250,081)</u>
Balance on the technical account for general business		<u>(2,147,583)</u>	<u>(1,151,174)</u>

All operations are continuing

The notes on pages 9 to 17 form part of these accounts.

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Financial Security Assurance (U.K.) Limited

Non-technical account for the year ended 31 December 2004

	Note	2004 £	2003 £
Balance on the technical account for general business		(2,147,583)	(1,151,174)
Investment income	4	1,542,423	1,007,957
Unrealised gains on investments	4	747,928	-
Unrealised losses on investments	4	(2,194,302)	(2,849,438)
Investment expenses and charges	4	(29,255)	(20,774)
Other income/(charges)	13	<u>(1,783,149)</u>	<u>1,268,616</u>
Loss on ordinary activities before tax		(3,863,938)	(1,744,813)
Tax benefit on loss on ordinary activities	8	<u>484,858</u>	<u>157,769</u>
Loss on ordinary activities after tax		<u>(3,379,080)</u>	<u>(1,587,044)</u>
Retained loss for the financial year		<u>(3,379,080)</u>	<u>(1,587,044)</u>

The non-technical account includes all recognized gains and losses and there is no difference between the results disclosed in the non-technical account and the results on a historical cost basis.

The notes on pages 9 to 17 form part of these accounts.

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Financial Security Assurance (U.K.) Limited
Balance sheet at 31 December 2004

	Note	<u>2004</u> £	<u>Restated 2003</u> £
Assets			
Investments			
Other financial investments	9	50,587,590	29,749,345
Reinsurers' share of technical provisions			
Provision for unearned premiums		266,435,573	205,683,577
Debtors			
Debtors arising out of direct insurance operations		100,820,606	70,051,020
Debtors arising out of reinsurance operations		30,791,507	21,963,176
Other debtors	10	4,662,468	8,513,025
Deferred tax asset	11	<u>6,184,839</u>	<u>6,599,486</u>
Total debtors		142,459,420	107,126,707
Other Assets			
Cash at bank and in hand		822,293	2,983,750
Prepayments and accrued income			
Accrued interest		370,516	137,353
Deferred acquisition costs		<u>31,285,603</u>	<u>20,834,415</u>
Total prepayments and accrued income		<u>31,656,119</u>	<u>20,971,768</u>
Total assets		<u>491,960,995</u>	<u>366,515,147</u>
Liabilities			
Capital and reserves			
Called up share capital	14	10,000,000	10,000,000
Other reserves	15	19,529,109	6,029,109
Loss account	15	<u>(5,730,247)</u>	<u>(2,351,167)</u>
Shareholder funds - equity interests		23,798,862	13,677,942
Technical provisions			
Provision for unearned premiums	1	267,935,952	206,882,471
Creditors			
Creditors arising out of reinsurance operations	12	114,632,698	82,485,468
Other creditors including taxation and social security	12	<u>13,140,449</u>	<u>11,390,820</u>
Total creditors		<u>127,773,147</u>	<u>93,876,288</u>
Accruals and deferred income			
Deferred ceding commissions		<u>72,453,034</u>	<u>52,078,446</u>
Total liabilities		<u>491,960,995</u>	<u>366,515,147</u>

The financial statements on pages 6 to 17 were approved by the Board of Directors on 29 March 2005 and were signed on its behalf by:

Director: _____

The notes on pages 9 to 17 form part of these accounts.

Auditors' report - page 5

Financial Security Assurance (U.K.) Limited

Notes to the financial statements

for the year ended 31 December 2004

1. Principal accounting policies

The accounts have been prepared in accordance with the applicable Accounting Standards in the United Kingdom. The financial statements have been prepared in accordance with Section 255 and Schedule 9A of the Companies Act 1985 and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (“the ABI SORP”) dated November 2003.

Change in accounting policy

The accounting guidance provided by ABI SORP for instalment premiums written and related receivables, unearned premiums, and effects of outward reinsurance and related ceding commission receivable have been adopted for the first time in these financial statements. This change in accounting has caused gross premiums written and gross provision for unearned premiums to increase by £30,317,585 and £25,392,774 for the years ended 31 December 2004 and 2003, respectively, partially offset by increases in outward reinsurance premiums and other related technical accounts resulting in no change in net premiums earned. Prior year figures included in these financial statements have been restated to reflect this change.

The Company underwrites financial guarantee business. The technical results for this line of business is determined on an annual basis whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums receivable but not yet due.

The policy for premium recognition is dependent on the timing of the collection of premiums and the contractual terms of the policy.

(i) Where the premium on a policy is received up front, the premium is recognised as written on the date of inception, and earned in the technical account over the life of the contract.

(ii) Where a premium is received in instalments and the underlying bonds are callable, management considers the nature of the call provision(s) and the likelihood of exercise of those provisions, and determines whether it is reasonably certain that the contract will run its full term. The full expected premium is recorded when it is reasonably certain that the contract will run its full term. When the contract is not expected to run its full term, the premium that is recognised as written is either the guaranteed minimum premium (where such a clause exists in the policy documents), or the Company records the instalments as they fall due. When the underlying bonds are non-callable, the premium recognized as written is the full expected premium that is reasonably certain to be received over the life of the contract.

When instalment premiums to be received under the policy are linked to an outstanding debt that could be paid down faster than anticipated, or where a premium is linked to an index, the Company recognises premiums written based upon an analysis of the premium it is reasonably certain to receive. Any anticipated change in the expected premium receivable is recognised as an adjustment

Notes to the financial statements

Financial Security Assurance (U.K.) Limited for the year ended 31 December 2004

to premium as soon as it is foreseen, in the case of decreases in premium, and when it is reasonably certain, in the case of increases in premium.

(b) Outward reinsurance premiums

Outward reinsurance premiums are accounted for with regard to the incidence of risk of the premiums for the direct or inwards reinsurance business to which they relate.

(c) Unearned premiums

Unearned premiums represent the proportion of premiums written in the current or prior years that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. Written premiums are recognised as earned income over the period of the policy having regard to the incidence of risk.

(d) Claims

Since commencing business, the Company has had no claims. Claims incurred comprise claims and related claims expenses paid in the year and the change in provisions for outstanding claims. The provision for unpaid claims and direct claims expenses, net of anticipated reinsurance recoveries, is recorded when an insured risk is in default at the balance sheet date, or when, in management's opinion, the likelihood of default is probable and determinable at the balance sheet date. When appropriate, the provision is discounted to its present value. A substantial measure of experience and judgment is involved in assessing outstanding losses, the ultimate cost of which cannot be known with certainty at a balance sheet date. The gross insurance provisions and related reinsurance recoveries are determined on the basis of information currently available; however, it is inherent in the nature of business written that the ultimate liabilities may vary as a result of subsequent developments.

(e) Acquisition costs and ceding commission income

Acquisition costs incurred, which represent expenses related to the production of business including compensation and related costs of underwriting and marketing personnel, and ceding commission income to be received are deferred, subject to recoverability, and amortised over the period in which the related premiums are earned.

(f) Foreign currencies

Transactions in foreign currencies are translated to sterling at the rate ruling at the date the transaction is made. Monetary assets and liabilities expressed in foreign currencies are translated to sterling at rates of exchange ruling at the end of the financial year. Differences arising on exchange are reflected in the non-technical account.

(g) Investment income and expenses

Investment income is stated on an accrual basis and includes realised gains and losses on the sale of investments. Investment expenses and charges include realised losses on the sale of investments.

(h) Unrealised investment gains or losses

Unrealised investment gains or losses are shown in the non-technical account.

Notes to the financial statements

Financial Security Assurance (U.K.) Limited for the year ended 31 December 2004

(i) Taxation

The charge for taxation is based on the result for the year. The full provision method for deferred taxation is made on timing differences. Timing differences arise on items of income, expenditure and changes in value of investments which are recognised for tax purposes in different periods from those in which they are recognised in the profit and loss account. Deferred tax assets are recognised only to the extent the Company believes more likely than not they will be recovered.

(j) Investments

Investments in redeemable security investments are stated in the balance sheet at market value.

(k) Pension costs

The Company maintains defined contribution pension plans for the benefit of eligible employees. Pension expense is recorded as incurred and is funded annually or more frequently in accordance with the respective plan requirements.

2. Segmental information

There is only one business segment, that of financial guarantee business. The net assets and the business written by the Company are predominantly based in the United Kingdom, with business underwriting decisions made in the United Kingdom.

	2004	Restated 2003
	£	£
Gross written premium		
UK	61,091,465	92,560,577
Europe, excluding UK	17,016,932	466,797
US	<u>3,110</u>	<u>1,537</u>
Total gross written premium	<u>78,111,507</u>	<u>93,028,911</u>
Gross earned premium	<u>17,059,284</u>	<u>13,201,307</u>
Gross operating expenses	<u>(24,619,346)</u>	<u>(26,151,877)</u>
Reinsurance balance	<u>(5,412,479)</u>	<u>(11,435,353)</u>

3. Net operating expenses

	2004	Restated 2003
	£	£
Acquisition costs	(10,257,706)	(7,511,117)
Changes in deferred acquisition costs	(9,299,799)	(15,493,784)
Administration expenses	(5,061,841)	(3,146,976)
Reinsurance commissions	<u>22,351,236</u>	<u>24,901,796</u>
Net operating expenses	<u>(2,268,110)</u>	<u>(1,250,081)</u>

All reinsurance commissions above were related to direct business written.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2004

4. Investment income and expenses

Investment activity account	2004 £	2003 £
Investment income	1,497,693	961,051
Realised investment gains	44,726	102,640
Investment management charges	(29,255)	(20,774)
Realised investment losses	-	(55,734)
Movement in unrealised gains and (losses)	<u>(1,446,374)</u>	<u>(2,849,438)</u>
Net investment return	<u>66,790</u>	<u>(1,862,255)</u>

The investment return has been dealt with in full within the non-technical account. Unrealised foreign exchange losses of £2,194,299 and £2,568,132 are included in movement in unrealised gains and losses for the year ended 31 December 2004 and 2003, respectively. These gains and losses arose as a result of the movement in the value of the U.S. dollar relative to the pound sterling.

5. Employee information

There are no direct employees of the Company. Employees of FSA are seconded to the Company pursuant to an agreement with FSA for cooperative and joint use of personnel. The average number of employees seconded to the Company during 2004 was 48, made up of 35 professional and 13 support staff. In 2003 the average was 44, made up of 33 professional and 11 support staff.

After one year of service, employees of FSA are eligible to participate in the defined contribution pension scheme that FSA sponsors. The contributions made by the Company on behalf of its employees to the pension scheme are based on pension costs across the Group as a whole. While the scheme is non-contributory, employees may elect to make additional personal contributions based upon their salary level and age.

The total allocated staff cost for the above employees under the agreement with FSA was:

	2004 £	2003 £
Wages and salaries	6,164,757	5,439,982
Pension costs	405,393	371,499
Social security costs	<u>548,694</u>	<u>640,839</u>
	<u>7,118,844</u>	<u>6,452,320</u>

6. Directors' emoluments

During the year the Company had six non-executive directors, three of whom were paid by the Company. One was paid £5,000 per annum in 2004 and 2003 for his services. No other compensation is paid to him by the Company nor is he party to any retirement, long-term incentive, option or any other Company benefit plan. A second director was also paid £5,000 per annum in 2004 and 2003 for his services. In addition, this director is paid by another Group company for services rendered but the Company is not recharged. The third director was paid £13,500 and £15,300 in 2004 and 2003, respectively. In 2004, this director was also paid by another Group company under its long-term incentive plan, but there was no recharge to the Company.

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2004

Of the four executive directors, one is paid for services provided to the Company. This director is paid by another Group company with a recharge to the Company. During 2004 and 2003, the Company was charged £509,805 and £418,000, respectively, for his services and for pension plan contributions made during 2004 and 2003 on his behalf of £12,200 and £11,800, respectively. During 2004 and 2003, this director also received long-term incentive payments of £609,400 and £115,000 respectively. The remaining three executive directors are also paid by another Group company for services rendered to other Group companies, but there is no recharge to the Company.

No director waived emoluments in respect of the years ended 31 December 2004 and 2003.

7. Profit (loss) on ordinary activities before tax

The Company has an agreement with FSA for cooperative and joint use of property, and as such was allocated a depreciation charge of £281,456 and £134,055 for 2004 and 2003, respectively. In 2004, audit fees of £116,400 (£28,500 in 2003) were incurred by the Company. Also in 2004, the Company paid non-audit fees of £124,500 (£285,723 in 2003) to PricewaterhouseCoopers LLP. The Company closely monitors all work performed by its auditors to ensure that their independence is not compromised.

8. Tax on profit/(loss) of ordinary activities and on recognised gains and losses

The Company has made an election with the Internal Revenue Service pursuant to Section 953(d) of the Internal Revenue Code. Section 953(d) allows certain foreign insurance companies to elect to be treated as a U.S. corporation for federal income tax purposes. The impact of the election is that the Company will be taxed as a U.S. corporation subject to tax on its worldwide income, subject to a credit for any taxes paid to a foreign jurisdiction. The current US federal tax rate is 35% as compared with a 30% rate in the U.K.

In 2004, the Company reflected as a credit to current income tax expense the benefit of current and prior year losses contributed by FSA Holdings and Dexia Holdings, Inc. (the ultimate Parents of the Company) totaling £436,660. These benefits were provided to the Company for no consideration.

Tax on profit of ordinary activities:

	2004	2003
	£	£
UK Corporation Tax		
Current	-	(60,027)
Deferred	(149,927)	(360,771)
Overseas Corporation Tax		
Current year	512,657	(3,379,258)
Deferred	<u>122,128</u>	<u>3,957,825</u>
	<u>484,858</u>	<u>157,769</u>

Notes to the financial statements

Financial Security Assurance (U.K.) Limited for the year ended 31 December 2004

A reconciliation between the current tax provision and that expected from the statutory U.K. tax rate of 30% is as follows:

	December 31, 2004 £	December 31, 2003 £
Tax benefit at statutory rate	1,159,181	523,444
Permanent differences	(1,113,030)	350,589
Unrealized gains	224,379	(824,836)
Compensation benefits	(5,255)	(506,555)
Deferred acquisition cost	(307,319)	(2,485,394)
Premium revenue	52,825	(5,987)
Meals & entertainment	(10,781)	(13,081)
Losses contributed by Parent – current year	82,267	-
Losses contributed by Parent – prior years	354,393	-
Tax rate differential	10,857	(492,567)
Other	65,140	15,102
Provision for income taxes	<u>512,657</u>	<u>(3,439,285)</u>

9. Investments: other financial investments

	2004 £		2003 £	
	Market Value	Cost	Market Value	Cost
Debt securities and other fixed interest securities	<u>50,587,590</u>	<u>49,900,322</u>	<u>29,749,345</u>	<u>29,813,058</u>

All investments are listed.

At 31 December 2004 and 2003, the Company's change in unrealised gain of £747,928 and loss of £281,306, respectively, were recorded as components of the Company's non-technical profit and loss account.

10. Other Debtors

	2004 £	Restated 2003 £
Amounts due from Group companies	4,051,992	8,463,826
UK corporation tax	550,000	-
Other	60,476	49,199
	<u>4,662,468</u>	<u>8,513,025</u>

Notes to the financial statements for the year ended 31 December 2004

Financial Security Assurance (U.K.) Limited

11. Deferred tax liability/(asset)

Based on its projections for continued future taxable income, the Company believes that its deferred tax assets are more likely than not to be realised.

The items that gave rise to the Company's net deferred tax assets are noted below:

Description	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2003	2004	2003	2004	2003	2004
Unrealised gains	0	0	0	(241,074)	0	(241,074)
Market Discounts	0	0	(8,494)	(10,993)	(8,494)	(10,993)
Deferred premium revenue adj.	0	0	0	(57,147)	0	(57,147)
Total deferred tax liabilities	0	0	(8,494)	(309,214)	(8,494)	(309,214)
Unrealised gains	0	0	20,700	0	20,700	0
Deferred premium revenue adj.	0	0	1,993	0	1,993	0
Deferred compensation	547,393	368,826	1,282,824	1,307,800	1,830,217	1,676,626
Deferred acquisition costs	0	0	4,634,222	4,672,310	4,634,222	4,672,310
Pension	54,774	83,414	54,559	51,791	109,333	135,205
Other, net	0	0	11,515	9,912	11,515	9,912
Total deferred tax assets	602,167	452,240	6,005,813	6,041,813	6,607,980	6,494,053
Net deferred tax asset	602,167	452,240	5,997,319	5,732,599	6,599,486	6,184,839

The movement in the net deferred tax asset is as follows:

	UK Corporation Deferred Taxes		Overseas Corporation Deferred Taxes		Total Deferred Taxes	
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2003	2004	2003	2004	2003	2004
As of 1 January	962,938	602,167	2,573,006	5,997,319	3,535,944	6,599,486
Movement in year	(360,771)	(149,927)	3,957,825	122,128	3,597,054	(27,799)
Translation Adj.	0	0	(533,512)	(386,848)	(533,512)	(386,848)
Other	0	0	0	0	0	0
	602,167	452,240	5,997,319	5,732,599	6,599,486	6,184,839

Financial Security Assurance (U.K.) Limited
Notes to the financial statements
for the year ended 31 December 2004

12. Creditors

	2004	Restated 2003
	£	£
Creditors arising out of reinsurance operations	114,632,698	82,485,468
Amounts due to Group companies	12,972,775	10,812,321
Amounts due under pension plan obligations	153,071	96,649
Other creditors including taxation and social security	<u>14,603</u>	<u>481,850</u>
	<u>127,773,147</u>	<u>93,876,288</u>

13. Other income/(charges)

	2004	2003
	£	£
Foreign currency translation gain/(loss)	(1,817,906)	1,268,616
Income from Group companies	<u>34,757</u>	<u>-</u>
	<u>(1,783,149)</u>	<u>1,268,616</u>

14. Share capital

Details of the Company's share capital are as follows:

	2004	2003
	£	£
Authorised:		
20,000,000 ordinary shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued:		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>

15. Reserves

	Other Reserves	Loss Account
	£	£
At 1 January 2004	6,029,109	(2,351,167)
Capital contributions for the year	13,500,000	-
Retained loss for the year	<u>-</u>	<u>(3,379,080)</u>
At 31 December 2004	<u>19,529,109</u>	<u>(5,730,247)</u>

In keeping with the net worth maintenance agreement that exists between the Company and FSA, £13,500,000 of additional assets were injected into the Company during 2004, in order to maintain the minimum agreed upon free assets in the Company of £10,000,000. There is no intention to repay the capital contributions which are intended to be a permanent addition to the capital of the Company.

Notes to the financial statements

**Financial Security Assurance (U.K.) Limited
for the year ended 31 December 2004**

16. Reconciliation of movements in shareholder's funds

	2004	2003
	£	£
	<hr/>	<hr/>
Loss for the financial year	(3,379,080)	(1,587,044)
Opening shareholder's funds	13,677,942	15,264,986
Capital contributions	<u>13,500,000</u>	<u>-</u>
Closing shareholder's funds	<u>23,798,862</u>	<u>13,677,942</u>

17. Ultimate and immediate holding company

The ultimate holding company at 31 December 2004 was Dexia, a publicly held Belgian corporation. The Company's immediate parent is FSA Insurance Company, incorporated in the State of Oklahoma, USA. Copies of Dexia consolidated annual report and copies of FSA Insurance Company's annual report may be obtained from Financial Security Assurance Holdings Ltd., Investor Relations, 350 Park Avenue New York, New York 10022, USA.

18. Cash Flow

Following the issue of the revision to FRS 1 "Cash Flow Statements" the Company has taken advantage of the exemption available to companies which are 90% owned and whose parent company accounts are publicly available. Accordingly, no cash flow statement has been included with the financial statements.

19. Related Party Transactions

As consolidated accounts are publicly available, the Company has taken advantage of the exemption in FRS8 not to disclose transactions and balances with related parties who are 90% owned within the same group.

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