



**EUROPEAN COMMUNITY  
and  
EUROPEAN ATOMIC ENERGY COMMUNITY  
– EURATOM –  
euro 2,000,000,000**

**Euro Medium-Term Note Programme  
Due from three months to 30 years from the date of original issue**



Under the Euro Medium Term Note Programme described in this Offering Circular (the "Programme"), each of the European Community (the "EC" or an "Issuer") and the European Atomic Energy Community ("EURATOM" or an "Issuer" and, together with the EC, the "Issuers"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro Medium Term Notes (the "Notes"). The aggregate principal amount of Notes issued by the Issuers and outstanding will not at any time exceed euro 2,000,000,000 (or the equivalent in other currencies).

This Offering Circular shall supersede and replace the Offering Circular dated 17th October, 1994 and the Supplemental Offering Circular dated 6th May, 1997 relating to the Programme.

Application has been made to list the Notes on the Luxembourg Stock Exchange (the "Stock Exchange"). However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange. The relevant Pricing Supplement (as defined in "Issue of Notes" below) in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Luxembourg Stock Exchange (or any other stock exchange).

Each Tranche (as defined in "Issue of Notes" below) of Bearer Notes (as defined in "Summary of the Programme — Form of Notes" below) having an original maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which, in each case, will be deposited on the issue date either with a depositary or as agreed between the relevant Issuer and the relevant Dealer (see further "Summary of the Programme — Form of Notes" below). Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes or, if so stated in the relevant Pricing Supplement, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or for Registered Notes (as defined in "Summary of the Programme — Form of Notes" below) at any time after the issue date. Interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or Registered Notes as described under "Summary of Provisions Relating to the Notes while in Global Form". Registered Notes will be represented by Note certificates (each a "Certificate") as described under "Summary of the Programme — Form of Notes" below.

Notes with a maturity of one year or more to be issued under the Programme have been rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Ratings Services.

*Dealers*

**ABN AMRO  
Barclays Capital  
Crédit Commercial de France  
Goldman Sachs International  
Morgan Stanley Dean Witter  
Salomon Smith Barney International**

**Banca Commerciale Italiana  
Bayerische Hypo- und Vereinsbank AG  
Deutsche Bank  
Merrill Lynch International  
Paribas  
Warburg Dillon Read**

*Arranger for the Programme*

**Goldman Sachs International**

The date of this Offering Circular is 5th January, 1999

Each of the Issuers, having made all reasonable enquiries, confirms in relation to itself that this document contains all information with respect to it and the Notes which is material in the context of the issue and offering of the Notes, the statements contained in this document relating to it are in every material particular true and accurate and not misleading, there are no other facts in relation to it or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this document misleading in any material respect and all reasonable enquiries have been made by it to ascertain such facts and to verify the accuracy of all such information and statements. Each Issuer accepts responsibility accordingly.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuers or any of the Dealers (as defined in "Summary of the Programme – Dealers"). Neither the delivery of this Offering Circular nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of either Issuer since the date hereof or the date upon which this document has been most recently amended or supplemented or that there has been no adverse change in the affairs of either Issuer since the date hereof or the date upon which this document has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuers and the Dealers 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 Offering Circular, see "Plan of Distribution".

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

The Arranger and the Dealers have not separately verified the information contained in this Offering Circular. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuers, the Arranger or the Dealers that any recipient of this Offering Circular should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of either of the Issuers during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers.

In connection with any Tranche (as defined below), one of the Dealers may act as a stabilising agent (the "Stabilising Agent"). The identity of the Stabilising Agent will be disclosed in the relevant Pricing Supplement. References in the next paragraph to "this Issue" are to each Tranche in relation to which a Stabilisation Agent is appointed.

In connection with this issue, the Stabilising Agent may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time and will be carried out in accordance with applicable laws and regulations.

## **ISSUE OF NOTES**

Notes will be issued by each Issuer on a continuous basis in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and principal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set forth in a pricing supplement to this Offering Circular (a "Pricing Supplement").

This Offering Circular should be read and construed in conjunction with any relevant Pricing Supplement.

## **SUPPLEMENTAL OFFERING CIRCULAR**

Each Issuer has given an undertaking to the Dealers and the Luxembourg Stock Exchange that, if at any time during the duration of the Programme, there is a significant change affecting any matter contained in this Offering Circular whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the overall financial position of such Issuer and the rights attaching to the Notes, the Issuers shall prepare an amendment or supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes to be listed on the Luxembourg Stock Exchange or any other stock exchange or otherwise and shall supply to each Dealer and the Luxembourg Stock Exchange such number of copies of such supplement hereto as such Dealer and the rules of the Luxembourg Stock Exchange may reasonably require.

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## SUMMARY OF THE PROGRAMME

*The following summary is qualified in its entirety by the remainder of this Offering Circular.*

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issuers:</b>         | European Community<br>European Atomic Energy Community — EURATOM                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Description:</b>     | Continuously Offered Euro Medium Term Note Programme (the "Programme")                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Arranger:</b>        | Goldman Sachs International                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Dealers:</b>         | <p>ABN AMRO Bank N.V., Banca Commerciale Italiana, Barclays Bank PLC, Bayerische Hypo- und Vereinsbank AG, Crédit Commercial de France, Deutsche Bank AG London, Goldman Sachs International, Merrill Lynch International, Morgan Stanley &amp; Co. International Limited, Paribas, Salomon Brothers International Limited and UBS AG, acting through its division Warburg Dillon Read.</p> <p>The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the whole Programme. References in this Offering Circular to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.</p> |
| <b>Fiscal Agent:</b>    | Bankers Trust Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Registrar:</b>       | Bankers Trust Luxembourg S.A.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Size:</b>            | Up to euro 2,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time in respect of both Issuers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Currencies:</b>      | Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in Australian Dollars, Canadian Dollars, Danish Kroner, euro, Hong Kong Dollars, New Zealand Dollars, Sterling, Swedish Kronor, Swiss Francs, U.S. Dollars or Yen and (subject to compliance with the restrictions from time to time in effect in relation to such currencies) Greek Drachmas or in other currencies if the relevant Issuer and the relevant Dealers so agree.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Maturities:</b>      | Subject to compliance with all relevant laws, regulations and directives, any maturity between three months and 30 years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Denomination:</b>    | Definitive Notes will be in such denominations as may be specified on the Note, save that, unless permitted by then current laws, regulations and directives, Notes (including Notes denominated in Sterling) with a maturity of 364 days or less in respect of which the issue proceeds are to be accepted by the relevant Issuer in the United Kingdom will be in minimum denominations of £100,000 (or its equivalent in other currencies).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Method of Issue:</b> | The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in one or more Series (which may be issued on the same date or which may be issued in more than one Tranche on different dates). The Notes may be issued in Tranches on a continuous                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

basis with no minimum issue size. Further Notes may be issued as part of an existing Series.

**Redenomination:**

Notes issued in the currency of any Member State of the European Union which later participates in the third stage of European Economic and Monetary Union may be redenominated into euro pursuant to the provisions of "Terms and Conditions of the Notes — Form, Denomination, Title and Redenomination" below (see also "Consolidation" below).

**Clearing Systems:**

In relation to any Tranche, Cedelbank, Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear"), Deutsche Börse Clearing AG ("DBC"), Sicovam S.A. ("Sicovam"), and/or such other clearing system as may be agreed between the relevant Issuer, the Fiscal Agent and the relevant Dealer.

**Form of Notes:**

The Notes may be issued in bearer form only ("Bearer Notes"), in bearer form exchangeable for Registered Notes ("Exchangeable Bearer Notes") or in registered form only ("Registered Notes"). Each Tranche of Bearer Notes and Exchangeable Bearer Notes having an initial maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes or Exchangeable Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which, in each case, will be deposited (a) in the case of a Tranche intended to be cleared through Euroclear and/or Cedelbank, on the issue date with a common depositary on behalf of Euroclear and Cedelbank and (b) in the case of a Tranche intended to be cleared through any clearing system (including DBC or Sicovam) other than Euroclear and Cedelbank or delivered outside a clearing system, as agreed between the relevant Issuer, the Fiscal Agent and the relevant Dealer. No interest will be payable in respect of a temporary Global Note except as described under "Summary of Provisions Relating to the Notes while in Global Form". Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes or, if so stated in the relevant Pricing Supplement, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or (in the case of Exchangeable Bearer Notes) Certificates at any time after the issue date. Interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) Certificates as described under "Summary of Provisions Relating to the Notes while in Global Form". Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series (subject to the provisions of the Agency Agreement (as defined in "Terms and Conditions of the Notes" below)). Registered Notes which are held in one or more clearing systems will be registered in the name of nominees or a common nominee for such clearing systems, and the relative Certificate(s) will be delivered to the appropriate depositary or, as the case may be, a common depositary. References in this Offering Circular to "Global Certificates" are to Certificates issued in respect of Registered Notes which are registered in the name of a nominee(s) for one or more clearing systems.

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|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Issue Price:</b>                         | Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly-paid Notes may be issued, the Issue Price of which will be payable in two or more instalments.                                                                                                                                                                                                                                           |
| <b>Fixed Interest Rate Notes:</b>           | Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.                                                                                                                                                                                                                                                                                                                             |
| <b>Floating Rate Notes:</b>                 | Floating Rate Notes will bear interest set separately for each Series by reference to LIBOR, LIBID, LIMEAN, EURIBOR or EURO-LIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin. Interest periods will be specified in the relevant Pricing Supplement.                                                                                                                     |
| <b>Zero Coupon Notes:</b>                   | Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest other than in the case of late payment.                                                                                                                                                                                                                                                                                                  |
| <b>Variable Coupon Amount Notes:</b>        | The Pricing Supplement issued in respect of each issue of variable coupon amount Notes will specify the basis for calculating the amounts of interest payable, which may be by reference to an index or formula or as otherwise provided in the relevant Pricing Supplement.                                                                                                                                                                         |
| <b>Interest Periods and Interest Rates:</b> | The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement. |
| <b>Variable Redemption Amount Notes:</b>    | The Pricing Supplement issued in respect of each issue of variable redemption amount Notes will specify the basis for calculating the redemption amounts payable, which may be by reference to an index or formula or as otherwise provided in the relevant Pricing Supplement.                                                                                                                                                                      |
| <b>Redemption by Instalments:</b>           | The Pricing Supplement issued in respect of each issue of Notes which are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.                                                                                                                                                                                                                                               |
| <b>Other Notes:</b>                         | Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, dual currency Notes, reverse dual currency Notes, optional dual currency Notes, partly-paid Notes and any other type of Note which the Issuer and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Pricing Supplement.                                                                                      |
| <b>Optional Redemption:</b>                 | The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders and, if so, the terms applicable to such redemption.                                                                                                                                                                        |
| <b>Status of Notes:</b>                     | The Notes will constitute unsecured, direct, unconditional and general obligations of the relevant Issuer all as described in "Terms and Conditions of the Notes — Status".                                                                                                                                                                                                                                                                          |
| <b>Negative Pledge:</b>                     | See "Terms and Conditions of the Notes — Negative Pledge".                                                                                                                                                                                                                                                                                                                                                                                           |

|                         |                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Cross Default:</b>   | See “Terms and Conditions of the Notes — Events of Default”.                                                                                                                                                                                                                                                                                                         |
| <b>Rating:</b>          | Notes with a maturity of less than one year to be issued under the Programme have been rated P-1 by Moody's Investors Service, Inc. and A-1+ by Standard & Poor's Ratings Services. Notes with a maturity of one year or more to be issued under the Programme have been rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Ratings Services. |
| <b>Withholding Tax:</b> | All payments under the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives. No grossing-up provisions will apply in the event of any withholding or deduction from such payments.                                                                                                                                      |
| <b>Consolidation:</b>   | Notes of one Series issued by a relevant Issuer may be consolidated with those of another Series issued by such Issuer, all as described in “Terms and Conditions of the Notes — Further Issues and Consolidation”.                                                                                                                                                  |
| <b>Governing Law:</b>   | English.                                                                                                                                                                                                                                                                                                                                                             |
| <b>Jurisdiction:</b>    | See “Terms and Conditions of the Notes — Governing Law and Jurisdiction”.                                                                                                                                                                                                                                                                                            |
| <b>Listing:</b>         | The Luxembourg Stock Exchange or as otherwise specified in the relevant Pricing Supplement. As specified in the relevant Pricing Supplement, a Series of Notes may not be listed on the Luxembourg Stock Exchange or any other stock exchange.                                                                                                                       |

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate(s) representing each Series. Either (i) the full text of these terms and conditions, together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject further to simplification by deletion of non-applicable provisions) will be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Pricing Supplement. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes which may be issued under the Programme and references to the "Issuer" shall, where the context so requires, be to the Issuer of such Notes only, not to both Issuers.*

The Notes are issued pursuant to an amended and restated Agency Agreement (as amended or supplemented from time to time, the "Agency Agreement") dated 5th January, 1999 between the European Community (the "EC"), the European Atomic Energy Community ("EURATOM"), Bankers Trust Company as fiscal agent (the "Fiscal Agent"), principal paying agent, transfer agent, redenomination agent (the "Redenomination Agent") and consolidation agent (the "Consolidation Agent"), Bankers Trust Luxembourg S.A. and UBS AG as paying agents (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the "Paying Agents") and as transfer agents (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the "Transfer Agents") and Bankers Trust Luxembourg S.A. as registrar (the "Registrar") and with the benefit of a Deed of Covenant (as amended or supplemented, the "Deed of Covenant") dated 5th January, 1999 executed by the Issuer. The initial Calculation Agent(s) (if any) is specified hereon. The Noteholders (as defined below), the holders of the interest coupons (the "Coupons") appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "Talons") (the "Couponholders") and the holders of the instalment receipts (the "Receipts") appertaining to the payment of principal by instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

### 1. Form, Denomination, Title and Redenomination

#### (a) **Form, Denomination and Title:**

The Notes are issued in bearer form ("Bearer Notes", which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form ("Registered Notes") or in bearer form exchangeable for Registered Notes ("Exchangeable Bearer Notes") in each case in the Denomination(s) shown hereon.

*All Registered Notes shall have the same Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Denomination as the lowest denomination of Exchangeable Bearer Notes.*

Bearer Notes are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Notes which do not bear interest in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Any Bearer Note the principal amount of which is redeemable in instalments is issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("Certificates"), each Certificate representing a holding of one or more Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register (the "Register") which the Issuer

shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Receipt, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Receipt, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon (or on the Certificate representing any Note(s)) made by anyone and no person shall be liable for so treating the holder.

In these Conditions, "Noteholder" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "holder" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

*All capitalised terms which are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be.*

**(b) Redenomination:**

- (i) The Issuer may, without the consent of the holders of the Notes, Certificates, Receipts, Coupons or Talons by giving at least 30 days' notice in accordance with Condition 12, redenominate all, but not some only, of the Notes into euro with effect from any Interest Payment Date or, in the case of Zero Coupon Notes, any date (the "Redenomination Date") falling on or after the date on which the Member State of the European Union ("EU") in whose national currency the Notes are denominated has become a participating Member State (a "participating Member State") in the third stage of the European Economic and Monetary Union ("EMU") and has redenominated its outstanding general government debt into euro.

The Notes shall be redenominated in the following manner:

- (a) in such manner and subject to such procedures as the Issuer may determine, in consultation with the Redenomination Agent, are consistent with existing or anticipated market practice for the redenomination into euro of euromarket debt obligations; or
- (b) if no such determination as set out above can be made, the Issuer may elect that the principal amount of each Note, or, if there is more than one Denomination, each part of the principal amount of each Note equal to the principal amount of the lowest Denomination shall be deemed to be denominated into such amount of euro as is equivalent to such principal amount converted into euro at the fixed rate for conversion of the relevant national currency (including compliance with rules relating to roundings in accordance with applicable EC regulations) into euro established by the Council of the EU pursuant to Article 109(4) of the Treaty establishing the EC, as amended from time to time (the "Treaty"). Such amount shall be rounded to the nearest cent (with 0.005 euro being rounded upwards) (the "Minimum Denomination"). The Notes as so redenominated are hereinafter referred to as "euro-denominated Notes".

In addition, the Issuer may, without the consent of the holders of the Notes, Certificates, Receipts, Coupons or Talons, on giving not less than 30 days' prior notice (which may, but need not, be the redenomination notice) to the holders of the Notes, elect that with effect from any Interest Payment Date or, in relation to Zero Coupon Notes, any date

falling on or after the Redenomination Date as it may specify in that notice (the "Specified Date"), the Denomination(s) of the Notes shall be the Minimum Denomination and euro 1,000, euro 10,000, euro 100,000 and euro 1,000,000 and/or such other denominations as may be specified in such notice. In such event, the euro-denominated Notes (the "Original Notes") shall be exchangeable (free of charge to the holders) at the specified office of the Fiscal Agent and at the specified offices of the Paying Agents for Notes of such new denominations ("New Notes") having the same aggregate principal amount as the Original Notes so exchanged together with Coupons, Receipts and Talons (where appropriate) in respect of future interest payments on such New Notes.

In relation to Registered Notes which are the subject of a redenomination as provided above, the Issuer shall, upon presentation by a holder of a Certificate representing such euro-denominated Notes to the Registrar or any Transfer Agent, arrange for the delivery of a new Certificate to such holder.

With effect from the Specified Date, all unmatured Coupons, Receipts and Talons relating to the Original Notes (whether or not attached) shall become void and no payment or exchange will be made in respect of them.

- (ii) Upon any such redenomination of the Notes, any reference in these Conditions and the relevant Pricing Supplement to the relevant national currency shall, where the context so admits, be construed as a reference to euro.
- (iii) The Issuer may elect, in respect of Notes which are redenominated in accordance with this Condition 1(b), that references in these Conditions and/or the relevant Pricing Supplement to any business or other relevant day, day-count fraction or other convention (whether for the calculation of interest, determination of payment dates or otherwise and however defined in these Conditions) shall, if different, with effect from any Interest Payment Date falling on or after the Redenomination Date or the Specified Date, be deemed to be amended to comply with any conventions applicable to euro-denominated obligations pursuant to applicable requirements of relevant monetary, stock exchange or other authorities and such market practices consistent therewith as the Issuer, in its discretion, shall determine, in consultation with the Redenomination Agent, to be applicable for the redenomination and exchange of euromarket debt obligations held in international clearing systems and these Conditions shall be deemed to be amended accordingly.
- (iv) Notice of any change to these Conditions pursuant to any such redenomination will be given to Noteholders in accordance with Condition 12 as soon as reasonably practicable thereafter.
- (v) Determinations made by the Issuer will, in the absence of manifest error, be conclusive and binding on the Redenomination Agent and the holders of Notes, Certificates, Receipts, Coupons and Talons.

## **2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes**

### **(a) Exchange of Exchangeable Bearer Notes:**

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Receipts, Coupons and Talons relating to it, at the specified office of the Registrar or any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest or Instalment Amount, the Coupon in respect of that payment of interest or Receipt in respect of that Instalment Amount need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Denomination

may not be exchanged for Bearer Notes of another Denomination (other than as provided for in Condition 1(b)). Bearer Notes which are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

**(b) *Transfer of Registered Notes:***

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate will be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred will be issued to the transferor.

**(c) *Partial redemption or exercise of options in respect of Registered Notes:***

In the case of a partial redemption of a holding of Registered Notes represented by a single Certificate or a partial exercise of an Issuer's or Noteholders' option in respect of a holding of Registered Notes represented by a single Certificate, a new Certificate will be issued to the holder in respect of the balance of the holding not redeemed or in respect of which the relevant option has not been exercised.

**(d) *Delivery of new Certificates:***

Each new Certificate to be issued upon exchange of Exchangeable Bearer Notes, transfer of Registered Notes or partial redemption of, or partial exercise of an Issuer's or Noteholders' option in respect of, Registered Notes will be available for delivery within three business days of receipt of the request for exchange, form of transfer or Exercise Notice or (in the case of a partial redemption or an exercise of an Issuer's option) of the giving to the Noteholders of the notice required in connection with such partial redemption or exercise of such option. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar, as the case may be, to whom delivery of such request for exchange, form of transfer or Exercise Notice shall have been made or (in the case of a partial redemption or an exercise of an Issuer's option) at the specified office of the Registrar or, at the option of the holder making such delivery as aforesaid and as specified in the relevant request for exchange, form of transfer or Exercise Notice, be mailed at the risk of the holder entitled to the new Certificate to such address as may be specified in such request for exchange, form of transfer or Exercise Notice. In this Condition 2(d), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar to whom such request for exchange, form of transfer or relevant Exercise Notice shall have been delivered or (in the case of a partial redemption or an exercise of an Issuer's option) in the place of the specified office of the Registrar.

**(e) *Exchange free of charge:***

Exchange of Notes on registration, transfer, partial redemption or exercise of an option will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect) of any tax or other governmental charges which may be imposed in relation to it.

**(f) *Closed periods:***

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for one or more Registered Note(s) (i) during the

period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6(d) or (iii) after any such Note has been drawn for redemption in whole or in part. An Exchangeable Bearer Note called for redemption may, however, be exchanged for one or more Registered Note(s) in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

### **3. Status**

The Notes and the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured, direct, unconditional and general obligations of the Issuer and will at all times rank *pari passu* without any preference among themselves and with all other present and future unsecured obligations of the Issuer for money borrowed in application of decisions of the Council of the EU, except for indebtedness (a) incurred for all or part of the purchase price of property purchased by the Issuer and (b) secured by a mortgage, lien, pledge or other charge on such property but otherwise ranking *pari passu* with the Notes.

### **4. Negative Pledge**

So long as any of the Notes, Receipts or Coupons remain outstanding the Issuer will not create or permit to exist any mortgage, lien, charge or pledge upon its assets or revenues (present or future), other than mortgages, liens, pledges or charges on property purchased by the Issuer as security for all or part of the purchase price, to secure the repayment of the principal amount of, or the payment of interest on, any other bond, note or similar obligation which has been or may be created or issued for money borrowed in application of decisions of the Council of the EU by the Issuer either as sole obligor or as one of two or more obligors unless the benefit of such security is at the same time extended rateably to the obligations of the Issuer in respect of the Notes.

### **5. Interest and Other Calculations**

#### **(a) Interest Rate and Accrual:**

Each Note bears interest on its outstanding principal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Interest Rate, such interest being payable in arrear on each Interest Payment Date.

Interest will cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which event interest will continue to accrue (as well after as before judgment) at the Interest Rate in the manner provided in this Condition 5 to the Relevant Date.

#### **(b) Business Day Convention:**

If any date referred to in these Conditions is specified to be subject to adjustment in accordance with the Floating Rate Convention and there is no numerically corresponding day in the calendar month in which such date occurs, such date shall be the last day which is a Relevant Business Day in that month.

If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Relevant Business Day, then, if the Business Day Convention specified is (i) the Floating Rate Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Relevant Business Day and (B) each subsequent such date shall be the last Relevant Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day, (iii) the Modified Following Business Day Convention, such date shall be postponed to the next

day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Relevant Business Day or (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Relevant Business Day; Provided that in each case, each subsequent such date shall be subject to adjustment in accordance with the relevant Business Day Convention without regard to whether any previous such date has been subject to adjustment, subject as provided in (i) above.

**(c) Interest Rate on Floating Rate Notes:**

If the Interest Rate is specified as being Floating Rate, the Interest Rate for each Interest Accrual Period will be determined by the Calculation Agent, at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:-

- (i) if the Primary Source for the Floating Rate is a Page, subject as provided below, the Interest Rate shall be:-
  - (x) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
  - (y) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date; Provided that, if, in the reasonable opinion of the Calculation Agent acting in good faith, such Page or Relevant Rate has fallen into disuse (notwithstanding the fact that such Page continues to be available on, or such Relevant Rate continues to be quoted by, the relevant information service), as evidenced by the fact that such Page or Relevant Rate has not been updated on a regular basis, such regularity being determined by the Calculation Agent, taking into account the nature and type of such Page or Relevant Rate, then the Calculation Agent shall substitute the page or the relevant rate which, in its reasonable opinion and acting in good faith, is most relevant for use in connection with the calculation of floating-rate interest relating to comparable debt obligations having interest provisions substantially similar to those of Notes;

- (ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (i)(x) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (i)(y) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Interest Rate shall be the arithmetic mean of the Relevant Rates which each of the Reference Banks is quoting to major banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent;
- (iii) if paragraph (ii) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Interest Rate shall be the arithmetic mean of the rates per annum (expressed as a percentage) which the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Relevant Currency which five leading banks in the principal financial centre of the country of the Relevant Currency which, if the Relevant Currency is euro, can be the principal financial centre of any one of the Member States then participating in EMU (the "Principal Financial Centre") selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration to leading banks carrying on business in Europe, or, if the Calculation Agent determines that fewer than

two of such banks are so quoting, in the Principal Financial Centre, except that, if fewer than two of the banks in the Principal Financial Centre so selected by the Calculation Agent are quoting as aforesaid, the Interest Rate shall be the Interest Rate determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Interest Rate applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period);

Provided that, for the purpose of calculating the Interest Rate applicable to any Floating Rate Notes on any Interest Determination Date falling on or after the date on which the national currency in which any such Notes are denominated shall be replaced by the euro as the lawful currency of the relevant Member State of the EU following the start of EMU, the Calculation Agent shall be entitled to substitute for the relevant Benchmark and/or the relevant Rates, as the case may be, referred to above, such other interest rate (whether displayed on any Page or quoted by any Reference Banks, as the case may be) which it shall determine to be applicable as such time to floating rate euro-denominated obligations held in international clearing systems taking account of any conventions applicable to such euro-denominated obligations pursuant to applicable requirements of relevant monetary, stock exchange or other authorities, applicable EC and national laws and regulations and such market practices consistent therewith as the Calculation Agent shall, in its discretion, determine to be applicable in the circumstances and the foregoing provisions of this Condition 5(c) shall be deemed to be modified accordingly. The Calculation Agent shall notify the Noteholders of any such substitution in accordance with Condition 12 as soon as reasonably practicable thereafter.

**(d) Interest Rate on Zero Coupon Notes:**

Where a Note the Interest Rate of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Redemption Amount of such Note. As from the Maturity Date, the Interest Rate for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as defined in Condition 6(c)).

**(e) Margin, Maximum/Minimum Interest Rates, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:**

- (i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Interest Rates, in the case of (x), or the Interest Rates for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (c) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Interest Rate, Instalment Amount or Redemption Amount is specified hereon, then any Interest Rate, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up) and (y) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes "unit" means the lowest amount of such currency which is available as legal tender in the country or countries of such currency.

**(f) Calculations:**

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Interest Rate and the outstanding principal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period will equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

**(g) Determination and Publication of Interest Rates, Interest Amounts, Redemption Amounts and Instalment Amounts:**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any Redemption Amount or Instalment Amount, obtain any quote or make any determination or calculation, it will determine the Interest Rate and calculate the amount of interest payable (the "Interest Amounts") in respect of each Denomination of the Notes for the relevant Interest Accrual Period, calculate the Redemption Amount or Instalment Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Interest Rate and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange so require, such exchange as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of an Interest Rate and Interest Amount, or (ii) in all other cases, the fourth Relevant Business Day after such determination, in accordance with Condition 12. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 9, the accrued interest and the Interest Rate payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Interest Rate or the Interest Amount so calculated need be made. The determination of each Interest Rate, Interest Amount, Redemption Amount and Instalment Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agents shall (in the absence of manifest error) be final and binding upon all parties.

**(h) Definitions:**

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the "Calculation Period":

- (i) if "Actual/365" or "Actual/Actual" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;
- (iv) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (v) if "30E/360" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period).

"Effective Date" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such hereon or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

"Interest Accrual Period" means the period beginning on, and including, the Interest Commencement Date and ending on, but excluding, the first Interest Period Date and each successive period beginning on, and including, an Interest Period Date and ending on, but excluding, the next succeeding Interest Period Date (unless otherwise specified hereon).

"Interest Commencement Date" means the date of issue of the Notes (the "Issue Date") or such other date as may be specified hereon.

"Interest Determination Date" means, with respect to an Interest Rate and Interest Accrual Period, the date specified as such hereon or, if none is so specified, the first day of such Interest Accrual Period if the Specified Currency is Sterling or the day falling two Relevant Business Days in London prior to the first day of such Interest Accrual Period if the specified currency is not Sterling.

"Interest Period" means the period beginning on, and including, the Interest Commencement Date and ending on, but excluding, the first Interest Payment Date and each successive period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next succeeding Interest Payment Date (unless otherwise specified hereon).

"Interest Period Date" means each Interest Payment Date (as may be adjusted in accordance with a specified Business Day Convention) unless otherwise specified hereon.

"Interest Rate" means the rate of interest payable from time to time in respect of this Note and which is either specified or calculated in accordance with the provisions hereon.

"Page" means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuter Monitor Money Rates Service ("Reuters"), the Dow Jones Telerate Service ("Telerate") and Bloomberg L.P. ("Bloomberg")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

"Reference Banks" means the institutions specified as such hereon or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money,

swap or over-the-counter index options market) which is most closely connected with the Benchmark.

“Relevant Business Day” means:—

- (i) in the case of euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and on which the TARGET System is operating credit or transfer instructions in respect of such payments; and/or
- (ii) in the case of a specified currency other than euro and/or one or more specified financial centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency and/or each of the financial centres so specified.

“Relevant Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“Relevant Date” means, in respect of any Note, Receipt or Coupon, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 12 that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected or, if none is so connected, London.

“Relevant Rate” means the Benchmark for a Representative Amount of the Relevant Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“Relevant Time” means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if none is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the relevant currency in the interbank market in the Relevant Financial Centre.

“Representative Amount” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the amount specified as such hereon or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“Specified Duration” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b).

“TARGET System” means the Trans-European Automated Real-Time Gross-Settlement Express Transfer (TARGET) System.

**(i) Calculation Agent and Reference Banks:**

The Issuer will procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer will

appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Interest Rate or Interest Accrual Period for any Interest Period or to calculate the Interest Amounts or comply with any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

## **6. Redemption, Purchase and Options**

### **(a) Final Redemption:**

Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or (e), each Note will be redeemed at its Redemption Amount (which, unless otherwise provided, is its principal amount) on the Maturity Date specified on each Note or, in the case of a Note falling within Condition 6(f), its Final Instalment Amount.

### **(b) Purchases:**

The Issuer may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price.

### **(c) Early Redemption of Zero Coupon Notes:**

- (i) The Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date, the Redemption Amount of which is not linked to an index and/or a formula, upon such Note becoming due and payable as provided in Condition 9 shall be the Amortised Face Amount (calculated as provided below) of such Note.
- (ii) Subject to the provisions of sub-paragraph (iii) below, the Amortised Face Amount of any such Note shall be the scheduled Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.
- (iii) If the Redemption Amount payable in respect of any such Note upon it becoming due and payable as provided in Condition 9 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (as well after as before judgment), until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 5(d).

**(d) Redemption at the Option of the Issuer, Exercise of Issuer's Options and Partial Redemption:**

If so provided hereon, the Issuer may, on giving irrevocable notice to the Noteholders falling within the Issuer's Option Period, redeem, or exercise any Issuer's option in relation to, all or, if so provided, some of the Notes in the principal amount or integral multiples thereof and on the date or dates so provided. Any such redemption of Notes shall be at their Redemption Amount together with interest accrued to the date fixed for redemption which may, if so specified hereon, be payable in instalments or otherwise.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

If so provided hereon, the Issuer shall redeem a specified number of the Notes on the date or dates so provided. Any such redemption of Notes shall be at their Redemption Amount together with interest accrued to the date fixed for redemption which may, if so specified hereon, be payable in instalments or otherwise. Notice of such redemption shall be irrevocably given to the Noteholders in accordance with Condition 12.

In the case of a partial redemption or a partial exercise of an Issuer's option the notice to Noteholders shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange requirements. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require, the Issuer shall, as soon as practicable after the occurrence of a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg a notice specifying the aggregate principal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

**(e) Redemption at the Option of Noteholders and Exercise of Noteholders' Options:**

If so provided hereon, the Issuer shall, at the option of the holder of any such Note, redeem such Note on the date or dates so provided at its Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders' option which may be set out hereon the holder must deposit such Note (together with all unmatured Receipts, Coupons and unexchanged Talons) with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Noteholders' Option Period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

**(f) Redemption by Instalments (Instalment Notes):**

Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified on the Notes) is extended pursuant to any Issuer's or Noteholders' option in accordance with Condition 6(d) or (e), each Note which provides for Instalment Dates and Instalment Amounts will be partially redeemed on each Instalment Date at the Instalment Amount specified on it, whereupon the outstanding principal amount of such Note shall be reduced by the Instalment Amount for all purposes, unless payment of the Instalment Amount is improperly withheld or refused on presentation of

the Related Receipt, in which case such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

**(g) Cancellation:**

All Notes purchased by or on behalf of the Issuer may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

**7. Payments and Talons**

**(a) Bearer Notes:**

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency; Provided that, in the case of euro, the transfer may be to, or the cheque drawn on, a euro bank account or such other bank account to which euro payments may be credited or transferred.

References in those Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it and (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it.

**(b) Registered Notes:**

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes will be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date and subject as provided in Condition 7(a) above, such payment of Interest may be made by transfer to an account

in the relevant currency maintained by the payee with a bank in the principal financial centre of the country of that currency (provided, in the case of euro, as aforesaid in Condition 7(a)).

**(c) *Payments in the United States:***

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payments in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

**(d) *Payments subject to law etc:***

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

**(e) *Appointment of Agents:***

The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents, the Calculation Agent, the Redenomination Agent and the Consolidation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents, the Calculation Agent, the Redenomination Agent and the Consolidation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any holder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent, the Calculation Agent, the Redenomination Agent or the Consolidation Agent and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agents where the Conditions so require, (v) a Redenomination Agent and a Consolidation Agent where the conditions so require, and (vi) a Paying Agent having a specified office in a European city which, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such Exchange so require, shall be Luxembourg and such other agents as may be required by the rules of any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 12.

**(f) *Unmatured Coupons and Receipts and unexchanged Talons:***

- (i) Unless the Notes provide that the relative Coupons are to become void upon the due date for redemption of those Notes, Bearer Notes should be surrendered for payment together with all unmaturing Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Redemption Amount due for payment. Any amount so

deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the due date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 8).

- (ii) If the relative Notes so provide, upon the due date for redemption of any Bearer Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note which is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note which provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

**(g) Talons:**

On or after the interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 8).

**(h) Non-Business Days:**

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "business day" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Business Day Jurisdictions" hereon and:—

- (i) (in the case of a payment in euro) where payment is to be made by transfer to a euro bank account (or such other bank account to which euro payments may be credited or transferred) on which banks are open for business and carrying out transactions in euro in the jurisdiction in which the euro account (or such other bank account to which euro payments may be credited or transferred) specified by the payee is located and on which the TARGET System is operating credit or transfer instructions in respect of such payment or

- (ii) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried out in the relevant currency in the principal financial centre of the country of such currency.

## **8. Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the due date thereof.

## **9. Events of Default**

If any of the following events ("Events of Default") occurs and is continuing, the holder of any Note may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Redemption Amount of such Note together with accrued interest to the date of payment shall become immediately due and payable unless such Event of Default shall have been remedied prior (except in the case of (b) below) to the receipt of such notice by the Fiscal Agent:—

- (a) *Non-Payment*: the Issuer shall default in any payment of principal or interest in respect of any of the Notes and such default shall not be cured by payment thereof within 30 days; or
- (b) *Breach of Other Obligations*: the Issuer shall default in the performance of any other covenant contained in the Notes and such default shall continue for a period of 90 days after written notice thereof shall have been given to the Issuer at the office of the Fiscal Agent by any Noteholder; or
- (c) *Cross-Default*: there is a declaration of default in any other loan indebtedness of the Issuer as a result of the occurrence of an event of default as defined in any instrument governing or evidencing such indebtedness, or any such other loan indebtedness is not paid at its stated maturity and such default is not cured within 30 days, or there is a declaration of default in the payment by the Issuer when due under any guarantee by it of loan indebtedness.

## **10. Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange regulations, at the specified office of the Paying Agent in Luxembourg (in the case of the Bearer Notes, Receipts, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders in accordance with Condition 12, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

## **11. Further Issues and Consolidation**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (except for the first payment of interest on them) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

The Issuer may also from time to time without the consent of the holders of the Notes, Certificates or Coupons of any Series by giving at least 30 days' notice in accordance with Condition 12, consolidate

the Notes with the notes of one or more other series issued by it provided that, in respect of all periods subsequent to such consolidation, the notes of all such other Series are denominated in the same currency as such Notes (irrespective of the currency in which any notes of such other series were originally issued) and otherwise have the same terms and conditions as such Notes.

With effect from their consolidation, the Notes and the notes of such other Series will (if listed prior to such consolidation) be listed on at least one European stock exchange on which either such Notes or the notes of such other Series were listed immediately prior to consolidation.

The Issuer shall, in dealing with the holders of such Notes following a consolidation pursuant to this Condition 11, have regard to the interests of the Noteholders and the holders of the notes of such other Series, taken together as a class, and shall treat them alike.

## **12. Notices**

Notices to the holders of Registered Notes (i) will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and (ii) in addition, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, will be published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Notices to the holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*) and so long as the Notes are listed on the Luxembourg Stock Exchange, in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). If any such publication is not practicable, notice will be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice to the holders of Bearer Notes in accordance with this Condition.

## **13. Currency Indemnity**

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note, Coupon or Receipt is due by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the currency of payment under the relevant Note, Coupon or Receipt which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under any Note, Coupon or Receipt, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, Coupon or Receipt or any other judgment or order.

## **14. Governing Law and Jurisdiction**

### **(a) Governing Law:**

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

**(b) Jurisdiction:**

*(i) European Community*

Pursuant to Article 181 of the Treaty, all disputes arising in connection with the validity, interpretation or performance of obligations under any Note, Certificate, Receipt, Coupon and/or Talon issued by the EC shall be submitted to the exclusive jurisdiction of the Court of Justice of the European Communities (the "ECJ") or, in the case of a holder of any such Note, Certificate, Receipt, Coupon and/or Talon falling within the scope of Article 3 paragraph 1 of Council Decision 88/591/ECSC/EEC/EURATOM, as amended by Article 1 of Council Decision 93/350/ECSC/EEC/EURATOM or by any subsequent amendment, to the exclusive jurisdiction of the Court of First Instance of the European Communities (the "CFI") with the right of appeal to the ECJ provided for in Article 168a of the EC Treaty.

*(ii) EURATOM:*

Pursuant to Article 153 of the Treaty establishing EURATOM, as amended (the "EURATOM Treaty"), all disputes arising in connection with the validity, interpretation or performance of obligations under any Note, Certificate, Receipt, Coupon and/or Talon issued by EURATOM shall be submitted to the exclusive jurisdiction of the ECJ or, in the case of a holder of any such Note, Certificate, Receipt, Coupon and/or Talon falling within the scope of Article 3 paragraph 1 of Council Decision 88/591/ECSC/EEC/EURATOM, as amended by Article 1 of Council Decision 93/350/ECSC/EEC/EURATOM or by any subsequent amendment, to the exclusive jurisdiction of the CFI with the right of appeal to the ECJ provided for in Article 140a of the EURATOM Treaty.

## **SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM OR WHILE REGISTERED IN THE NAME OF A NOMINEE FOR A CLEARING SYSTEM**

### **Initial Issue of Notes**

Each Tranche of Bearer Notes having an original maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note in each case in bearer form without Coupons, Receipts or a Talon attached. The relevant Global Note will be deposited on behalf of the subscribers of the relevant Notes (a) in the case of a Tranche intended to be cleared through Euroclear and/or Cedelbank, with a common depositary (the "Common Depositary") for Euroclear and for Cedelbank or (b) in the case of a Tranche intended to be cleared through any clearing system (including DBC or Sicovam) other than Euroclear and Cedelbank or delivered outside a clearing system, as otherwise agreed between the relevant Issuer, the Fiscal Agent and the relevant Dealer on or about the issue date of the relevant Notes (the "Issue Date"). Notes issued in registered form will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series (subject to the provisions of the Agency Agreement). Registered Notes which are held in one or more clearing systems will be registered in the name of nominees or a common nominee for such systems and the relative Certificate(s) will be delivered to the appropriate depositary or a Common Depositary, as the case may be. Upon the initial deposit of a Global Note with the Common Depositary, or the initial registration in the name of any nominee and delivery of the relative Global Certificate(s) to the appropriate or common depositary, Euroclear or Cedelbank will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

### **Relationship of Accountholders with Clearing Systems**

Each of the persons shown in the records of Euroclear or Cedelbank or any other clearing system (an "Alternative Clearing System") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Cedelbank, or such Alternative Clearing System (as the case may be) for his share of each payment made by the relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Cedelbank or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

### **Amendment of Conditions**

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions which apply to the Notes which they represent, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

- (1) *Exchange*: Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date (as defined below) (i) if the relevant Pricing Supplement indicates that such Global Note is issued in a transaction to which TEFRA is not applicable (as to which, see "Plan of Distribution"), in whole, but not in part, for the definitive Bearer Notes or Certificates and (ii) otherwise, in whole or in part for interests in a permanent Global Note or, if so provided in a temporary Global Note, for definitive Bearer Notes upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. Each temporary Global Note which is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or definitive Bearer Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only. Each permanent Global Note is exchangeable in whole (or in the case of Partly-paid Notes only, in part) at the

request and cost and expense of the holder (or, (i) if so provided in a permanent Global Note, (ii) if a permanent Global Note is held on behalf of Euroclear, Cedelbank or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (iii) if an Event of Default occurs in relation to the Notes represented thereby, at the cost and expense of the relevant Issuer) for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) a Certificate by such holder giving notice to the Fiscal Agent, or by the relevant Issuer giving notice to the Fiscal Agent and the Noteholders of its intention to exchange (at the option, cost and expense of the relevant Issuer) such permanent Global Note for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) Certificate(s), in each case on or after the Exchange Date specified in the notice.

On or after any Exchange Date, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the relevant Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for definitive Bearer Notes or Certificates, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bearer Notes (if appropriate, having attached to them all Coupons and Receipts in respect of interest or instalment Amounts which have not already been paid on the permanent Global Note and a Talon), security printed, or (if the permanent Global Note is an Exchangeable Bearer Note) Certificates printed, in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in Schedule 2 to the Agency Agreement. On exchange in full of each permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant definitive Bearer Notes or Certificates, as the case may be.

"Exchange Date" means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or, in the case of an exchange for Registered Notes five days, or in the case of an event of default 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

- (2) *Payments:* No payment falling due after the Exchange Date will be made on any temporary Global Note unless exchange for an interest in a permanent Global Note or for definitive Bearer Notes or Certificates is improperly withheld or refused. Payments on any temporary Global Note (to which TEFRA applies) before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment fails to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.
- (3) *Notices:* So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to holders of such Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of

the relevant notice to the holder of the Global Note except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

- (4) *Prescription:* Claims against the relevant Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the due date thereof.
- (5) *Purchase and Cancellation:* Cancellation of any Note surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Global Note.
- (6) *Default:* Each Global Note and each Global Certificate provides that the holder may cause such Global Note, or a portion of it, or, in the case of a Global Certificate, one or more Registered Notes represented by such Global Certificate, to become due and repayable in the circumstances described in Condition 9 by stating in the notice to the Fiscal Agent the principal amount of such Global Note or Registered Notes which is becoming due and repayable. Following the giving of a notice of an Event of Default by or through the appropriate or common depositary for the relevant clearing system(s), the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the relevant Issuer under the terms of a Deed of Covenant to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the Register will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of a whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.
- (7) *Issuer's Option:* The notice given by the relevant Issuer to the Noteholders shall not be required to contain the serial numbers of Notes drawn and, accordingly, no drawing of Notes will be required under Condition 6(d) in the event that the relevant Issuer exercises any option relating to those Notes while all such Notes which are outstanding are represented by a Global Note. In the event that the relevant Issuer redeems only part of the Notes or that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Cedelbank, DBC, Sicovam or the other relevant clearing system (as the case may be).
- (8) *Noteholders' Option:* Any Noteholders' option may be exercised by the holder of a Global Note giving notice to the Fiscal Agent of the principal amount of Notes in respect of which the option is exercised and presenting such Global Note for endorsement of exercise within the time limits specified in the Conditions.
- (9) *Redenomination and Consolidation:* On the Specified Date, the Notes shall become New Notes without the need for the relevant Global Note or Global Certificate to be presented for exchange. A Global Note or a Global Certificate, as the case may be, may be amended or replaced by the relevant Issuer (in such manner as it considers necessary) for the purposes of taking account of new additional denominations of the Notes following a redenomination of the Notes pursuant to Condition 1(b). On any consolidation of Notes with the notes of any other Series, the relevant Issuer may issue one or more replacement Global Notes or Global Certificates, as the case may be, in exchange for the Global Notes or Global Certificates representing the Notes of the Series being consolidated. Any consolidation may, in such circumstances, require a change in the relevant common depositary.

- (10) *Partly-paid Notes*: The provisions relating to Partly-paid Notes will be contained in the relative Pricing Supplement and thereby in the Global Notes. For so long as any instalments of the subscription moneys due from the holder of Partly-paid Notes are due, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for definitive Bearer Notes or Certificates (as the case may be). In the event that any Noteholder fails to pay any instalment due on any Partly-paid Notes within the time specified, the relevant Issuer may be entitled to forfeit such Notes and shall have no further obligation to their holder in respect of them.

#### **USE OF PROCEEDS**

The net proceeds of issues of Notes will be used by the relevant Issuer for its general funding purposes including, in the case of the EC, the financing of financial assistance loans granted to certain countries and, in the case of EURATOM, the funding of loans to certain Central and Eastern European countries to improve the safety levels of nuclear installations in such countries.

## **EUROPEAN COMMUNITY**

### **History**

The European Economic Community (the "EEC") was established by the Treaty of Rome (the "EEC Treaty") signed on 25th March, 1957 on behalf of Belgium, France, Germany, Italy, Luxembourg and The Netherlands. The EEC Treaty came into force on 1st January, 1958 and is of unlimited duration. By accession treaties, Denmark, Ireland and the United Kingdom became members of the EEC on 1st January, 1973, Greece on 1st January, 1981, Spain and Portugal on 1st January, 1986 and Austria, Finland and Sweden on 1st January, 1995. The countries from time to time comprising the EEC are referred to herein as the "Member States". The EEC Treaty has been modified and complemented by the Single European Act, which came into effect on 1st July, 1987 and which sets forth certain rules governing the political co-operation of the Member States. Pursuant to the Treaty on European Union (see "Policies" below), the EEC was renamed the European Community (the "EC").

### **Membership**

Membership support for the EC has always been strong, permitting substantial progress toward European integration and economic and monetary union, in particular with the recent adoption of the third stage of European Economic and Monetary Union ("EMU") in January 1999.

Since the Intergovernmental Conference held in Amsterdam in July 1997, the proposed enlargement of the European Union (the "EU") to include certain Central and Eastern European states has gained momentum. As agreed in December 1997 at the Luxembourg Summit, preliminary talks with the Czech Republic, Estonia, Hungary, Poland and Slovenia commenced in early 1998. In addition, EU accession negotiations have begun with Cyprus, while accession procedures concerning Malta are ongoing. Other potential candidates for the EU are Bulgaria, Latvia, Lithuania, Romania, Slovakia and Turkey.

### **Legal Status and Jurisdiction**

The EC has independent legal personality and possesses, in each of the Member States, the most extensive legal capacity accorded to legal persons constituted in that State.

In accordance with the Protocol on the Privileges and Immunities of the European Communities, the EC is endowed, in each of the Member States, with the privileges and exemptions essential for fulfilling its obligations. Accordingly, its assets and income are exempt from any direct taxation and it is allowed to hold and maintain bank accounts in any currency of its choice. Claims on the assets of the EC are subject to the authorisation of the Court of Justice of the European Communities.

### **Purpose and Policies**

The EC is one of three supranational entities known collectively as the European Communities (the others are the European Coal and Steel Community (the "ECSC") and the European Atomic Energy Community ("EURATOM")) which were established in order to bring about the political and economic integration of Europe after World War II. The EEC Treaty also created the legally autonomous European Investment Bank ("EIB") to help finance projects contributing to the development of a common market.

The EC has a broader mandate than the other two European Communities, as it is charged with creating a common internal market and promoting the co-ordination of the economic policies of the Member States, thereby promoting throughout the EC a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the Member States. To achieve these goals, the EC is directed, *inter alia*, to:

- eliminate customs duties and quantitative trade restrictions between Member States;
- establish a common customs tariff and common commercial policy toward other countries;

- abolish obstacles to the freedom of movement of goods, persons, services, and capital between Member States; and
- adopt a common agricultural policy.

Its Member States provide the EC with the financial resources to fulfil its responsibilities in the form of budget revenues and the authority to borrow. Also, the EC has the legislative authority to implement its directives and regulations in that EC law (the product of joint efforts of national authorities and EC institutions) is, to a varying extent, legally binding on Member States and takes precedence over any conflicting national legislation.

The EC is empowered to enter into agreements with national and international entities. As at 29th November, 1998, 165 countries had established diplomatic relations with the EC. The EC has entered into a variety of bilateral and multilateral commercial and technical agreements with individual countries and international organisations.

## **Policies**

### *Monetary Policy*

To strengthen monetary co-operation, in 1979 the EC created the European Monetary System (the "EMS") with the objective of supporting intra-EC trade by reducing the short-term fluctuations of European exchange rates. To accomplish this, the EC established the Exchange Rate Mechanism (the "ERM"), in which currencies floated within a few percentage points of a set central rate.

The EMS had always been seen as an intermediate step toward full EMU. In Maastricht on 7th February, 1992, the Governments of the relevant Member States signed the Treaty on European Union, which came into effect on 1st November, 1993 and which, *inter alia*, amends the EEC Treaty (as amended, the "EC Treaty"). The EC Treaty provides, among other provisions, that EMU will be attained in three stages in compliance with the principles set out in its Article 3a. The three stages are as follows:

- Stage one began on 1st July, 1990. At the beginning of this stage, capital controls were abolished as a rule in conformity with Directive (EEC) 88/361 and Member States established multiannual programmes intended to ensure the lasting convergence of their economies (Article 109E.2 of the EC Treaty).
- Stage two began on 1st January, 1994 (Article 109E.1). At the start of this stage, the European Monetary Institute (the "EMI") was established and assumed its duties, as defined in Article 109F of the EC Treaty. The functions of the EMI included strengthening the co-operation between the national Central Banks and the co-ordination of the monetary policies of the Member States, preparing the third stage of EMU and being consulted by the Council of Ministers of the EU (the "Council") regarding any proposed act within its field of competence.
- Stage three, which began on 1st January, 1999, primarily implemented the euro as the single currency of the EU and the currency of each participating Member State. In order for a Member State to participate in the third stage of EMU, it had to have achieved a sufficient degree of economic convergence, following the procedures established by Article 109J of the EC Treaty. On 2nd May, 1998, the following eleven Member States were considered to have met the necessary convergence conditions: Belgium, Germany, Spain, France, Italy, Ireland, Luxembourg, The Netherlands, Austria, Portugal and Finland. The United Kingdom and Denmark decided not to become participating Member States on 1st January, 1999, even if they otherwise may have met the convergence conditions, pursuant to opt-out protocols to the EC Treaty. Greece and Sweden were considered, as at 2nd May 1998, not to have fulfilled the necessary conditions for the adoption of the euro. Accordingly, these four Member States do not currently participate in the third stage of EMU pursuant to the derogation established by Article 109K of the EC Treaty. A European System of Central Banks (the "ESCB") and a European Central Bank (the "ECB") were created and granted full powers in respect of monetary policy from the start of stage three, with the ECB replacing the EMI.

At the start of the third stage of EMU, the value of the euro as against the currencies of the participating Member States was irrevocably fixed, and the euro became a currency in its own right. The following table sets out the rates of exchange between the euro and such currencies fixed by the Council on 31st December, 1998:

The irrevocably fixed conversion rates between the euro and the currencies of the Member States adopting the euro are:

|          |                               |
|----------|-------------------------------|
| 1 euro = | 40.3399 Belgian francs        |
|          | = 1.95583 German marks        |
|          | = 166.386 Spanish pesetas     |
|          | = 6.55957 French francs       |
|          | = 0.787564 Irish pound        |
|          | = 1,936.27 Italian lire       |
|          | = 40.3399 Luxembourg francs   |
|          | = 2.20371 Dutch guilders      |
|          | = 13.7603 Austrian schillings |
|          | = 200.482 Portuguese escudos  |
|          | = 5.94573 Finnish markkas     |

For Member States not participating in the third stage of EMU, a new exchange rate mechanism (ERM 2) has been created, based on central rates against the euro. Large fluctuations of the exchange rates will be permitted.

#### *Trade Policy*

The EC and its Member States are members of the World Trade Organisation (the "WTO"). The WTO system of rights and obligations governs trade relations between the EC and non-Member States, through the application of the WTO principles of transparency, non-discrimination, national treatment and the "most-favoured nation". Accordingly, by way of example, the EC imposes uniform most-favoured nation tariffs on products originating in WTO non-Member States.

As a member of the then General Agreement on Tariffs and Trade ("GATT"), the EC participated in the Uruguay Round of trade negotiations that were concluded on 15th April, 1994. The Uruguay Round agreements came into force on 1st January, 1995 at the same time as the creation of the WTO (which replaced GATT), of which the EC was a founding member. Within the WTO, the Commission of the European Communities (the "Commission") represents the EC, and Member States of the Community are not at liberty to conclude trade agreements on goods between themselves and non-Member States.

In addition to its membership of the WTO, the EC has also entered into a number of preferential trade agreements, for example: the Agreement creating the European Economic Area (the "EEA"), the Lomé Convention (which provides preferential duties for products originating in African, Caribbean and Pacific countries), and bilateral trade and co-operation agreements with certain countries in Central and Eastern Europe. The EEA, which came into force on 1st January, 1994, seeks, *inter alia*, to create a common market based on the four freedoms of movement for people, goods, capital and services. Such "regional trade agreements" or customs unions are permitted under WTO rules so long as they cover substantially all trade between the parties to them and do not involve the raising of trade barriers with third countries not party to those arrangements.

#### *Agricultural Policy*

In relation to agriculture, since 1962 Member States have operated under a price support system, known as the Common Agricultural Policy (the "CAP"). The proposed enlargement of the EU to include certain Central and Eastern European countries with a large agricultural sector and the GATT Agreement

on Agriculture signed in 1994, together with the preparation of the WTO negotiations on farm trade liberalisation in 1999, have further intensified the need to reform EU agricultural aid policies.

In particular, the Agenda 2000, which was proposed by the Commission in July 1997 and expected to come into force during 1999, and which defines the development and policies of the EU between 2000 and 2006, is expected to continue the reform of the CAP. Among other things, subsidies for certain EU agricultural products may be reduced, thereby bringing EU agricultural prices closer to rest of world prices.

For the time being, EU agricultural transfers to Central and Eastern European countries remain modest. In order to smooth access to the EU by these applicants, specific agricultural subsidies (for example, for the modernisation of farm structures and development of health and quality controls) will be allocated on the basis of the national prosperity, active farming population and farm land of the candidate states.

#### *Social and Regional Policies*

EC financial resources have also made an important contribution to European integration by funding sectoral and regional development projects, labour adjustment assistance programmes, balance-of-payments loans, and research and development. Structural Funds were created to help regions where Gross Domestic Product ("GDP") per capita is below 75% of the EU average, while the EC's Cohesion Fund is aimed at helping Member States with a Gross National Product ("GNP") per capita of less than 90% of that of the EU (primarily Greece, Spain, Ireland and Portugal).

In the Agenda 2000, in order to streamline the Structural Funds, the seven objectives of these funds are set to be reduced to the three following priorities aimed at achieving economic and social cohesion:

- reducing regional disparities;
- supporting regions undergoing economic change; and
- developing human resources (particularly development of education and employment).

Accordingly, the share of recipients entitled to structural aid may be reduced from 50% to approximately 40% of the EU population. Furthermore, overall expenditure on cohesion is expected to be maintained at 1999 levels to create room to finance the new forms of solidarity required by the enlargement of the EU. The pre-accession strategy of facilitating the integration of certain Central and Eastern European applicants comprises not only the existing aid programme, Phare, but also a structural programme to finance infrastructure development for transport and the environment (which is expected to amount to euro 1 billion per year between 2000 and 2006).

In addition, since the Amsterdam Treaty, which was signed on 2nd October, 1997 and is expected to come into force during 1999, the issue of unemployment will be specifically included in the EC Treaty. Proposals were made to fight continuously high unemployment (averaging 9.8% among Member States at the end of October 1998), in particular through the co-ordination of economic policies and the reform of the employment systems, social policies and tax systems of Member States.

#### *Other Policies*

Looking ahead, closer co-operation among Member States in matters of foreign affairs, security, justice, and home affairs (which was outlined in the Treaty on European Union), as well as further fiscal and tax harmonisation, in particular addressing all aspects of social security systems, are all areas where further progress may be made toward integration.

#### **Finances and Budget**

The EC budget covers all EC and EURATOM expenditures together with the administrative expenditures of the ECSC. All revenues, with only minor exceptions, are available to finance such expenditures. Member States are obliged to release funds to cover budgeted appropriations and budgeted

expenditures must be covered by budgeted revenues. However, the balanced budget is defined on a cash basis, permitting delays of expenditure and anticipation of revenues to accommodate budget variances.

Supplementary budgets may be introduced to amend the principal budget during the fiscal year. If the budget is not passed by the beginning of the fiscal year, monthly expenditures are limited to one-twelfth of the previous budget's annual appropriations. Borrowed funds cannot finance budget expenditures but can only be used to finance extra-budget loans.

Budget resources are derived almost entirely from revenues automatically paid to the EC by Member States and are not subject to annual approval by national governments. Known as "own resources", these revenues consist of tariffs on agricultural imports from non-Member States, duties on goods imported from outside the EC, and levies on each Member States' value-added tax ("VAT") receipts and GNP. Own resources represented 99% of EC revenues in 1998.

VAT receipts and GNP-based own resources are the two major sources of budget revenue, representing approximately 41% and 43% of total revenue, respectively, in 1998, compared to 46% and 36%, respectively, in 1997. However, VAT receipts are expected to stabilise or slightly decrease as the VAT levy is to be gradually reduced to 1.08% in 1998 and 1% in 1999, from its peak of 1.4% in 1994.

The 1998 budget was marked by setting expenditure growth target close to 3% (or 0.5% excluding the operations of the Structural Funds and Cohesion Fund). Total payment appropriations amounted to 1.14% of GNP, an increase of 1.4% from 1997, but well below the own resources ceiling of 1.26% of GNP. Agricultural expenditure and expenditure on structural measures represented the largest item of the budget. In addition, euro 191 million (0.2% of appropriations) were intended for the new employment initiative. In terms of external action, the most significant increases in the budget were geared toward Latin American countries and Mediterranean non-Member States. In 1999, the total payment appropriations are budgeted at 1.11% of GDP.

Enlargened membership has forced a re-evaluation of budget priorities. In the Agenda 2000, contributions of Member States to the budget are expected to be set at 1.27% of the EU's GNP, thereby continuing the spending limits established at the 1992 Edinburgh Summit. However, the expected enlargement of the EU, together with its forecast economic growth, is estimated to add approximately euro 20 billion (at 1997 prices) by 2006 to the EC's budget. Pursuant to decisions taken at the 1992 Edinburgh Summit, the increase in spending on agriculture is limited to 74% of average EU annual real economic growth, despite the pressures resulting from any enlargement.

### **Borrowing Activities**

The EC is empowered by the EC Treaty to adopt borrowing and guarantee programmes that will mobilise the financial resources necessary to fulfill its mandate. The EC currently operates three active programmes:

- a balance-of-payments financing programme to assist Member States experiencing external payments difficulties and support structural reforms;
- a financial aid programme to assist non-Member States; and
- guarantees provided to the EIB on loans made to certain non-Member States.

In addition, the EC has two further programmes under which it has not borrowed money since 1995 and which are expected to remain inactive:

- the "New Community Instrument", a borrowing programme under which the EC may raise money to be on-lent through the EIB to make loans relating to investment projects which further certain investment objectives within Member States; and
- a food and medical supplies programme to help C.I.S. states.

The guarantee of the EC budget covers loans made under one of the EU financial programmes (for example, the balance-of-payments facility) and loans granted by the EIB to non-Member States. At the end

of 1997, the ceiling for operations guaranteed by the general budget was euro 50 billion. This was used for euro 6.6 billion of EC lending and for euro 5.5 billion of loans granted by the EIB. The Guaranteed Fund for external actions, which was established to deal with a default by or in a non-Member State, was activated for an amount of euro 0.29 billion, in particular in respect of loans made in the former Yugoslavia. In addition, financial aid to non-EC countries, mainly in Eastern Europe and the former Soviet Union, totalled euro 2.1 billion in 1997. Contingent liabilities in the form of guarantees on EIB loans to non-Member States were euro 14.1 billion, or 17.5% of budget revenues, at the end of 1997.

Outstanding debt represented approximately 15.1% and 14.6% of the EC revenues at year-end 1997 and 1998, respectively. Debt service payments for 1998 amounted to euro 2.6 billion, with debt service remaining at approximately 3% of the EC 1998 budget. With the next amortisation of the balance-of-payments programme not due before 2000, EC's debt service in 1999 will amount to only euro 500 million.

## **EUROPEAN ATOMIC ENERGY COMMUNITY — EURATOM**

### **History**

EURATOM was established by the Treaty of Rome (as amended, the "EURATOM Treaty") signed on 25th March, 1957 on behalf of Belgium, France, Germany, Italy, Luxembourg and The Netherlands.

The EURATOM Treaty came into force on 1st January, 1958 and is of unlimited duration. By accession treaties, Denmark, Ireland and the United Kingdom became members of EURATOM on 1st January, 1973, Greece on 1st January, 1981, Spain and Portugal on 1st January, 1986 and Austria, Finland and Sweden on 1st January, 1995. The 15 countries from time to time comprising EURATOM are referred to herein as the "Member States". The EURATOM Treaty has been modified and complemented by the Single European Act, which came into effect on 1st July, 1987, and which sets forth certain rules governing the political co-operation of Member States.

### **Legal Status and Jurisdiction**

EURATOM is a supranational entity where Member States are the same as those of the EC and the ECSC. Although the governing institutions of the European Communities have been merged, inter alia, into the Commission of the European Communities and the Council of the EU, each of the three European Communities is a separate entity with its own borrowing powers. Under the EURATOM Treaty, EURATOM enjoys a separate legal existence. In each of the Member States, it may enter into contracts by concluding agreements with non-Member States, international organisations or nationals of non-Member States and, in particular, may acquire and transfer property and may sue and be sued in its own name. Furthermore, in accordance with the Protocol on the Privileges and Immunities of the European Communities, within the Member States, EURATOM is endowed with the privileges and exemptions essential for fulfilling its obligations. Accordingly, its assets and income in Member States are exempt from any direct taxation and any claims or administrative or legal measures of constraint on its assets and property are subject to the authorisation of the Court of Justice of the European Communities.

### **Purpose**

#### *Loans to borrowers based in Member States*

Under the EURATOM Treaty, the express purpose of EURATOM is to create the conditions necessary for the establishment and growth of peaceful nuclear industries within the Member States. The Treaty provides that EURATOM is to carry out this task by:

- promoting research and ensuring the dissemination of technical information;
- establishing uniform safety standards to protect the health of workers and of the general public and ensuring that they are applied;
- facilitating investment and ensuring the establishment of the basis installations necessary for the development of nuclear energy within the Member States;
- ensuring that all users in the Member States receive a regular and equitable supply of ores and nuclear fuels;
- making certain, by appropriate supervision, that nuclear materials are not diverted to purposes other than those for which they are intended;
- exercising the right of ownership conferred upon it with respect to special fissionable materials;
- ensuring wide commercial outlets and access to the best technical facilities by the creation of a common market in specialised materials and equipment, by the free movement of capital for investment in the field of nuclear energy and by freedom of employment for specialists within the Member States; and
- establishing with non-member countries and international organisations such relations as will foster progress in the peaceful uses of nuclear energy.

### *Loans to borrowers based in certain non-Member States*

Following Council Decision 94/179/EURATOM, which was adopted on 21st March, 1994, EURATOM's purpose was extended to the financing, in certain non-Member States in Central and Eastern European countries, of certain projects. In particular:

- any such projects must give priority to improving the level of safety and efficiency of nuclear power stations and installations in the nuclear fuel cycle which are in service or under construction;
- projects may also relate to the decommissioning of installations for which a safety upgrade to a level acceptable to Western European standards cannot be justified for either technical or economic reasons and such installations, if simply abandoned, would pose a safety hazard. Financing granted in respect of these projects may relate to investment made both during the period between shut-down of the installation and the start of decommissioning and to the decommissioning measures themselves. However, the financing of decommissioning measures will be considered only in cases where no provision to finance such measures has been made during the operating life of the installation;
- only investments to be made in Armenia, Bulgaria, the Czech Republic, Hungary, Lithuania, Romania, Russia, Slovakia and Ukraine are eligible; and
- EURATOM may not finance new nuclear power plants, new installations in the nuclear fuel cycle or any military installations.

### **Financial Activities**

Council Decision 77/270/EURATOM, which was adopted on 29th March, 1977, authorised the Commission to contract borrowings on behalf of EURATOM in order to contribute to the financing, within Member States, of investment projects relating to the industrial production of electricity in nuclear power stations and of industrial installations involved in various stages of the nuclear fuel cycle. The loans granted by EURATOM are intended to supplement those loans which the relevant project enterprise has contracted with other parties and are limited, in principle, to 20% of the total cost of the project, made available in one or several tranches. Since 1977, EURATOM has granted loans with an aggregate value of euro 2,876 billion pursuant to this Decision.

Council Decision 94/179/EURATOM, which was adopted on 21st March, 1994, authorised the Commission to contract borrowings on behalf of EURATOM in order to contribute to the financing of certain projects as described under "Loans to borrowers based in certain non-Member States" above. These loans may not exceed 50% of the total cost of the relevant project. No lending operations have been undertaken so far on the basis of this Council Decision. However, a number of loan applications from borrowers in these countries have been received and preparatory steps for loan approvals are reaching their final stages.

Financing may only be granted to projects which have received the approval of the competent national authorities and, in particular, the relevant safety authorities. The granting of first-class security, such as bank or state guarantees, assignments of reserves or tangible securities, is required as a condition to loans made by EURATOM. In particular, in relation to loans to non-Member States, the guarantee of the state on whose territory the relevant project is situated is required. Furthermore, financial transactions which are contracted on behalf of EURATOM must be made on substantially similar conditions as the corresponding loans made to various projects.

See also "European Community — Finances and Budget" above for further information relating to EURATOM's budget.

## PLAN OF DISTRIBUTION

Subject to the terms and on the conditions contained in an Amended and Restated Distribution Agreement dated 5th January, 1999 (the "Distribution Agreement") between the Issuers and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuers to the Permanent Dealers; however, each Issuer has reserved the right to sell Notes directly on its own behalf to Dealers which are not Permanent Dealers. Such Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by each Issuer through the Dealers, acting as agents of the relevant Issuer. The Distribution Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

Any commission agreed between the relevant Issuer and each relevant Dealer in respect of Notes subscribed or procured for subscription by it will be stated in the relevant Pricing Supplement. The Issuers have agreed to reimburse Goldman Sachs International for its expenses incurred in connection with the establishment of the offering contemplated hereby and the Dealers for certain of their activities in connection with such offering.

Each Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of any Notes. The Distribution Agreement may be terminated in relation to all the Dealers or any of them by each Issuer, or, in relation to itself and the Issuers only, by any Dealer, at any time on giving not less than ten days' written notice.

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

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

Each Dealer has agreed that, except as permitted by the Distribution Agreement, it will offer, sell or deliver the Notes of any identifiable Tranche, (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, by the Fiscal Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, only in accordance with Rule 903 of Regulation S under the Securities Act, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Each Dealer has represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold, and will not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Each of the Dealers and each Issuer has represented and agreed that, in connection with their initial distribution (i) it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in the Republic of France, and (ii) offers and sales of Notes in the Republic of France will be made only in accordance with Article 6 of the Ordinance n° 67-833 dated 28th September, 1967, as amended, and Decree n° 98-880 dated 1st October, 1998 relating to offers to a limited number of investors and/or qualified investors.

In addition, each of the Dealers and each Issuer has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France, the Offering Circular or any other offering material relating to the Notes other than to investors to whom offers and sales of Notes in the Republic of France may be made as described above.

Each Dealer represents and agrees that it will only offer Notes in the Federal Republic of Germany in compliance with the provisions of the German Securities Prospectus Act of 13th December, 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the offer and sale of the Notes in the Federal Republic of Germany.

These selling restrictions may be modified by the agreement of the relevant Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular or any other offering material or any relevant Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Offering Circular, any other offering material or any relevant Pricing Supplement and neither Issuer nor any other Dealer shall have responsibility therefor.

## **GENERAL INFORMATION**

- 1.** Copies of the EC Treaty and the EURATOM Treaty with amendments thereto, including the Treaty on European Union, as well as copies of the most recent General Budget of the European Community and EURATOM will be available for inspection at the specified office of each of the Paying Agents. In addition, copies of the most recently available General Report on the Activities of the European Union (including the EC and EURATOM) may be obtained by holders of the Notes at such offices.
- 2.** Each of the EC and EURATOM is empowered to make the borrowings proposed under the Programme pursuant to the provisions of the EC Treaty or the EURATOM Treaty, as the case may be. Each issue of Notes under the Programme will be separately authorised by the Commission of the European Communities. In all matters relating to the Programme and the Notes issued thereunder, each Issuer will be represented by the Commission of the European Communities.
- 3.** The Luxembourg Stock Exchange has allocated the number 11046 to the Programme for the purposes of listing Notes issued under the Programme on such Stock Exchange.
- 4.** Each Bearer Note with a maturity of more than 12 months and each 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 of 1986."
- 5.** Neither of the Issuers is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor so far as each Issuer is aware is any such litigation or arbitration pending or threatened.
- 6.** Notes have been accepted for clearance through the Euroclear and Cedelbank systems. The Common Code and the International Securities Identification Number (ISIN) for each Series of Notes will be set out in the relevant Pricing Supplement.

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