



The Director
Midlothian Council
Corporate Services
Buccleuch Street
Dalkeith
Midlothian
EH22 1DJ

8th October 2004

Attention: Steve Humphreys

Dear Sir,

Re: Transaction via: Prebon Marshall Yamane (UK) Ltd

We write to confirm details of the loan arranged today:

Borrower:	Midlothian Council
Amount:	£5,000,000.00 (Five Million Pounds)
Loan Start Date:	15 October 2004
Period:	50 Years
Repayment:	15 October 2054
Interest Rate:	3.82%pa until 15 October 2009 then 4.50% pa
Interest Payable on:	15 April, 15 October annually

- a. In the event that such payment date falls on either a weekend or a Bank Holiday the interest payment date will be on the next business day unless that the day is in the following month in which case it should be the day prior to the Bank Holiday or weekend. Interest to be computed on a 365-day year basis. When applicable the 29th February is an interest-bearing day. Interest will be calculated on the actual number of days elapsed in each interest period.
- b. The Registered Holder has the right on 15 October 2009 (and on any subsequent semi annual interest rate payment date thereafter), (each an 'effective date') by means of notice to Midlothian Council to be delivered no later than 11.00am four business days prior to the relevant effective date, to alter the interest (to a rate determined by the Registered Holder) and, if notice is given the rate of interest will change to the rate so notified, but subject to the conditions set out in clause 12 of the Bond Certificate.

A handwritten signature in blue ink, appearing to be "MS", located in the bottom right corner of the page.

Date of First Payment: 15 April 2005
Amount of First Payment: £95,238.36
Security/Documentation: Bond Certificate as detailed in the Local Authority Stocks and Bonds (Scotland) Regulations 1975, in the form appended (original for execution to follow by post).

Your Bank Details: Bank: Royal Bank of Scotland
Sort Code: 83 17 26 A/C Number: 00128363


Our Bank Details: Bank: Citibank NA
Sort Code: 18 50 08 A/c Number: 08553475

Please confirm by return to fax No 020 7378 7188 your concurrence that the above loan details as set out above are correct. When replying please also provide us with:

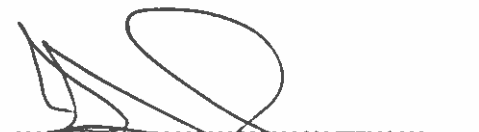
- (1) a list of those persons authorised to "deal" on behalf of the authority;
- (2) a copy of the Standing Order relating to the execution of Bond Certificates;
- (3) specimen signatures of those persons authorised a) to deal and b) to sign Bond Certificates on behalf of the Council
- (4) a copy of Bond Certificate duly completed.

Please note that we shall be unable to disburse funds unless this confirmation has been received by ourselves duly signed by an authorised person together with (1), (2), (3) and (4) by 12.00 Noon on the loan start date.

Yours faithfully
For and on Behalf of
Dexia Credit Local - London Branch


.....
Authorised Signatories

Date: 12 OCTOBER 2004
Agreed for and on behalf of
Midlothian Council


.....
Proper Officer

Please note that all telephone conversations are taped as per the Inter-Professional Conduct rules.

BOND NO. 704003

Midlothian Council acknowledge the receipt of the loan on the terms specified in the Schedule below ("the Schedule") and subject to the Conditions endorsed in this Bond Certificate.

THE SCHEDULE

REGISTERED HOLDER: Dexia Credit Local – London Branch
2nd Floor, Shackleton House, 4 Battle Bridge Lane, London, SE1 2RB

AMOUNT OF PRINCIPAL: £5,000,000.00 (Five Million Pounds)

DATE ACCEPTED: 15 October 2004

INTEREST:

(a) 3.82% per annum until 15 October 2009 and thereafter at 4.50% per annum, with interest payable on 15 April and 15 October (In the event that such payment date falls on either a weekend or a Bank Holiday the interest payment date will be on the next business day unless that day is in the following month in which case it should be the day prior to the Bank Holiday or weekend. Interest to be computed on a 365-day year basis. When applicable the 29th February is an interest-bearing day). Interest will be calculated on the actual number of days elapsed in each interest period.

(b) The Registered Holder has the right on the 15 October 2009 (and on any subsequent semi annual interest rate payment date thereafter), (each an 'effective date') by means of notice to Midlothian Council to be delivered no later than 11.00am four business days prior to the relevant effective date, to alter the interest (to a rate determined by the Registered Holder) and, if notice is given the rate of interest will change to the rate so notified but Clause 12 below will apply.

DATE OF REPAYMENT OF PRINCIPAL: 15 October 2054

AMOUNT OF REPAYMENT OF PRINCIPAL: £5,000,000.00 (Five Million Pounds)

This Bond Certificate is issued in compliance with the Local Government (Scotland) Act 1975 and the Local Authority Stocks and Bonds (Scotland) Regulations 1975 (as amended by the Local Authority Stocks and Bonds (Scotland) Amendment Regulations 1991) ("the 1975 Regulations").

Duly executed on behalf of Midlothian Council in accordance with ~~Standing Order No (.....)~~
Financial Regulation (12.2.4)

Date of Issue: 15 October 2004

Signature:



Position Held: Director Corporate Services

Corporate Services

Examined by: Director of Finance and Registrar for Bonds

Name of Registrar: IAN JACKSON

Address of Registrar: MIDLOTHIAN HOUSE
BUCCLEUCH STREET
DALKEITH
EH22 1DN

CONDITIONS:

1. The amount of this Bond Certificate is acknowledged to be a debt payable to the Registered Holder by Midlothian Council.
2. (i) Interest is payable on the principal amount of this Bond Certificate for the time being outstanding from the acceptance date on the face of this Bond Certificate up to the due date for repayment thereof specified in the Schedule and shall be remitted in cleared funds on the dates specified in the Schedule to the Registered Holder's nominated bank account.
(ii) If any sum of principal or interest is not paid on its respective due date, interest at the rate of 2% per annum above the Royal Bank of Scotland plc's base rate from time to time is payable on that unpaid sum from the due date up to the date of actual payment on the interest payment dates specified in the Schedule.
3. Default in payment of any part of the debt under this Bond Certificate shall entitle the Registered Holder to call for immediate repayment of the amount of Principal together with all interest accrued and together with any broken funding costs thereby incurred.
4. Midlothian Council shall have no rights of set-off, compensation, retention, counterclaim or deductions from payments in respect of the debt.
5. The debt acknowledged by this Bond Certificate is fully transferable by the Registered Holder and Midlothian Council shall acknowledge and register any such transfer.
6. This Bond Certificate is redeemable by remittance of cleared funds to the Registered Holder's nominated bank account on the date specified for repayment in the Schedule.
7. Midlothian Council hereby authorises the Registered Holder to apply any credit balance to which Midlothian Council is entitled on any account which it holds with the Registered Holder in satisfaction of any sums due and payable from Midlothian Council to the Registered Holder but unpaid.
8. The terms and conditions set out in this Bond Certificate may be varied by agreement in writing between Midlothian Council and the Registered Holder, subject to Regulation 4 of the 1975 Regulations.
9. Notwithstanding any other provisions of this Bond Certificate, the total of payments which fall to be made by Midlothian Council hereunder, other than payments in respect of interest, shall not, on the date of issue of this Bond Certificate, exceed the limit specified in Regulation 4(1) of the 1975 Regulations.
10. If, by any reason of (i) any change in law or in its interpretation or its administration and/or (ii) compliance with any request from or requirement of any central bank or other fiscal, monetary or other authority, there is any increase in the cost to the Registered Holder of funding or maintaining the loan under this Bond Certificate, then Midlothian Council shall from time to time, on the Registered Holder's demand, pay to the Registered Holder, as additional interest, amounts sufficient to indemnify it against such increased costs.
11. If any of the terms or conditions of this Bond Certificate is found by a court or other competent authority to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceable shall not affect or impair the validity, legality or enforceability of any other provision of this Bond Certificate.
12. If the Registered Holder exercised the right to alter the Interest then Midlothian Council may prepay the amount of Principal and all accrued interest thereon on the date the Interest is altered without penalty, subject to receipt of notice by the Registered Holder from Midlothian Council no later than 11.00am two business days prior to the relevant effective date. The amount payable to redeem this Bond Certificate on any date other than the date of Repayment of Principal or a date in which Interest is altered is the Principal and all accrued interest thereon together with all broken funding and associated financing costs (if any) incurred by the Registered Holder (on such date) arising from early termination of the funding and associated financing arrangements for this loan.