

# LEONARDO SYNTHETIC PUBLIC LIMITED COMPANY

(a public company incorporated with limited liability in the Republic of Ireland with registered number 341696)

EUR 56,000,000 Class A Secured Floating Rate Notes due 2019 (the *Class A Notes*)

EUR 84,000,000 Class B Secured Floating Rate Notes due 2019 (the *Class B Notes*)

EUR 33,600,000 Class C Secured Floating Rate Notes due 2019 (the *Class C Notes*)

Issue Price: 100 per cent.

Leonardo Synthetic public limited company (*Leonardo* or the *Issuer*) will issue the Class A Notes, the Class B Notes and the Class C Notes (together the *Notes*) on or about (but not before) 11 May, 2001 (the *Closing Date*). The Notes will be constituted pursuant to a trust deed to be entered into on 11 May, 2001 (the *Trust Deed*) between the Issuer, Bankers Trustee Company Limited (in such capacity, the *Trustee*) as trustee for the holders of the Notes (the *Noteholders*) and the holders of the Coupons (the *Couponholders*) (if any), AIB International Financial Services Limited (the *Principal Paying Agent* and, together with any other Paying Agent appointed under the Paying Agency Agreement defined below, the *Paying Agents*) as paying agent under the paying agency agreement to be entered into on 11 May, 2001 between the Issuer, the Trustee, Deutsche Bank AG London as note calculation agent (the *Note Calculation Agent*) and the Paying Agents (the *Paying Agency Agreement*), AIB International Financial Services Limited (in such capacity, the *Corporate Administrator*) as corporate administrator under the corporate administration agreement to be entered into on 11 May, 2001 between, among others, the Issuer, the Trustee and the Corporate Administrator (the *Corporate Administration Agreement*), Structured Finance Management (Ireland) Limited (the *Corporate Officers Provider*) as corporate officers provider under the corporate officers agreement to be entered into on 11 May, 2001 between the Issuer and the Corporate Officers Provider (the *Corporate Officers Agreement*), Merrill Lynch International (*MLI* or, in such capacity, the *Credit Default Swap Counterparty*) as credit default swap counterparty under the credit default swap to be entered into on 11 May, 2001 between the Issuer, the Credit Default Swap Counterparty and Banca Intesa Banca Commerciale Italiana S.p.A. (*IntesaBci*) acting, where appropriate, through its subsidiaries (in such capacity, the *Servicer*) (the *Credit Default Swap*), IntesaBci S.p.A., London Branch (in such capacity, the *IGB Purchase Counterparty*), under the Italian government bond purchase agreement to be entered into on 11 May, 2001 between the Issuer and the IGB Purchase Counterparty (the *IGB Purchase Agreement*), MLI (in such capacity, the *Total Return Swap Counterparty*) under the total return swap to be entered into on 11 May, 2001 between the Issuer and the Total Return Swap Counterparty (the *Total Return Swap*) and Deutsche Bank AG London (in such capacity, the *Custodian*) under the custody agreement to be entered into on 11 May, 2001 between the Issuer, the Custodian and the Trustee (the *Custody Agreement*). The Issuer will also enter into a banking services agreement (the *Banking Services Agreement*) on 11 May, 2001 with Allied Irish Banks p.l.c. (in such capacity, the *Bank*) as operating bank, the Trustee and AIB International Financial Services Limited. The obligations of the Credit Default Swap Counterparty under the Credit Default Swap and the obligations of the Total Return Swap Counterparty under the Total Return Swap will be unconditionally guaranteed by Merrill Lynch & Co., Inc. (the *Swap Guarantor*) pursuant to a guarantee to be entered into on 11 May, 2001 (the *Swap Guarantee*). The claims of the Trustee for itself, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the IGB Purchase Counterparty, the Total Return Swap Counterparty and the Custodian will rank in priority to the claims of the Noteholders and the Couponholders (if any). The claims of the Class A Noteholders will rank *pari passu* between themselves and in priority to the claims of the Class B Noteholders and the Class C Noteholders. The claims of the Class B Noteholders will rank *pari passu* between themselves and in priority to the claims of the Class C Noteholders. The claims of the Class C Noteholders will rank *pari passu* between themselves.

Leonardo was incorporated as a public limited company on 12 April, 2001 and its shares are held by a share trustee (and its nominees) under the terms of a charitable trust. Neither MLI nor IntesaBci has any legal or beneficial interest in the Issuer or any control over its business or affairs.

Application has been made to the Irish Stock Exchange Limited (the *Irish Stock Exchange*) for the Notes to be admitted to the Official List of the Irish Stock Exchange. A copy of this Information Memorandum, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the requirements of the Irish European Communities (Stock Exchange) Regulations 1984 (as amended) (the *Regulations*), has been delivered to the Registrar of Companies in the Republic of Ireland in accordance with the Regulations.

Particular attention is drawn to the section herein entitled "Risk Factors".

Merrill Lynch International

Banca Intesa Banca Commerciale Italiana S.p.A.

Credit Agricole Indosuez

The date of this Information Memorandum is 4 May, 2001

The proceeds of the issue of the Class A Notes and the Class B Notes will be invested in fixed and/or floating rate bonds issued by the Republic of Italy (each, together with any interest accrued thereon, an *IGB* and together, the *IGBs*) acquired pursuant to the IGB Purchase Agreement, which bonds will be held in a separate securities account at Monte Titoli by or on behalf of the Custodian pursuant to the Custody Agreement. The Custody Agreement will be governed by English law and provide for the jurisdiction of the English courts. The proceeds of the Class C Notes will be utilised in acquiring an interest bearing Euro deposit of an equal amount held in an account in the name of the Issuer in London (the *Cash Deposit Account*) with IntesaBci S.p.A., London Branch (in such capacity, the *Deposit Bank*) to be held pursuant to a deposit agreement (the *Deposit Agreement*) to be entered into between the Issuer, the Trustee and the Deposit Bank on 11 May, 2001, which agreement will be governed by English law and provide for the jurisdiction of the English courts. The Euro deposit will be acquired by the Issuer pursuant to a deposit assignment agreement (the *Deposit Assignment Agreement*) to be entered into between the Issuer, IntesaBci, the Deposit Bank and a subsidiary of IntesaBci on 11 May, 2001. The Deposit Assignment Agreement will be governed by English Law and will provide for the jurisdiction of the courts of the Republic of Ireland. The Issuer will receive periodic payments in Euro on a quarterly basis from the Credit Default Swap Counterparty under the Credit Default Swap. The Issuer will be required to make payments in Euro to the Credit Default Swap Counterparty under the Credit Default Swap in certain circumstances upon the occurrence of a Credit Event (as defined in "*Description of the Credit Default Swap*" below) and subject to the satisfaction of certain conditions, as specified in the Credit Default Swap, in relation to a notional portfolio of obligations (the *Reference Portfolio*) linked to certain reference entities and reference airlines (see "*Description of the Credit Default Swap*"). An amount equal to such payment will reduce *pro rata* and *pari passu*, firstly the Principal Amount Outstanding (as defined in Condition 1.2) of the Class C Notes, secondly the Principal Amount Outstanding of the Class B Notes and thirdly the Principal Amount Outstanding of the Class A Notes in accordance with the terms and conditions of the Notes (the *Conditions*).

Interest on the Notes will be payable quarterly in arrears in Euro on the 20th day in March, June, September and December (each an *Interest Payment Date*) in each year or, if such day is not a Business Day (as defined in the Conditions), on the next following Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day. The Class A Notes will bear interest on their Principal Amount Outstanding at the start of the Initial Interest Period (as defined in the Conditions) at the European Interbank Offered Rate for three (3) month Euro deposits (*EURIBOR* as defined in the Conditions) adjusted in accordance with Linear Interpolation (as defined in the Conditions) by reference to the rate for deposits in Euro for periods of one and two months (*Adjusted EURIBOR*) and at the start of each Additional Interest Period (as defined in the Conditions) at *EURIBOR* plus, in both instances, 0.45 per cent. per annum. The Class B Notes will bear interest on their Principal Amount Outstanding at the start of the Initial Interest Period at *Adjusted EURIBOR* and at the start of each Additional Interest Period at *EURIBOR* plus, in both instances, 0.70 per cent. per annum. The Class C Notes will bear interest on their Principal Amount Outstanding at the start of the Initial Interest Period at *Adjusted EURIBOR* and at the start of each Additional Interest Period at *EURIBOR* plus, in both instances, 1.15 per cent. per annum.

The Class A Notes, the Class B Notes and the Class C Notes will each be initially represented by a temporary global note of the relevant class in bearer form (the *Class A Temporary Global Note*, the *Class B Temporary Global Note* and the *Class C Temporary Global Note* respectively and together the *Temporary Global Notes*), without interest coupons or talons, which are expected to be deposited with Deutsche Bank AG London as common depositary (the *Common Depositary*) for the account of Euroclear Bank S.A./N.V., as operator of the Euroclear System (*Euroclear*) and Clearstream Banking, société anonyme (*Clearstream, Luxembourg*), on or about the Closing Date. Interests in the Temporary Global Notes will each be exchangeable not earlier than 40 calendar days after the Closing Date (provided that certification of non-beneficial U.S. ownership has been received) for interests in a permanent global note in bearer form relating respectively to each Class of Notes (the *Class A Permanent Global Note*, the *Class B Permanent Global Note* and the *Class C Permanent Global Note* respectively and together the *Permanent Global Notes*), without coupons or talons, which will also be deposited with the Common Depositary. The Temporary Global Notes and the Permanent Global Notes are referred to herein as the *Global Notes*. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Temporary Global Notes or the Permanent Global Notes.

It is a condition of the issuance of the Notes that the Class A Notes, the Class B Notes and the Class C Notes are assigned AAA, AA and A ratings respectively by both Standard & Poor's Rating Services – a division of The McGraw Hill Companies, Inc. (*S&P*) and Fitch Ratings Ltd (*Fitch*) and Aaa, Aa2, and A2 ratings respectively by Moody's Investors Service Limited (*Moody's* and, together with S&P and Fitch, the *Rating Agencies*). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will be obligations solely of the Issuer and none of the Trustee, the Paying Agents, the Credit Default Swap Counterparty, the Swap Guarantor, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian, the Deposit Bank, the Bank or any other person (other than the Issuer) has any obligation or accepts any liability to any holder of Notes or Coupons (as defined in the Conditions) (if any) for payment of any amount due by the Issuer in respect of the Notes or Coupons (if any).

Potential investors should consider the descriptions set out in this Information Memorandum and the terms of the Trust Deed, the Notes, the Credit Default Swap, the Tripartite Agreement, the Swap Guarantee, the IGB Purchase Agreement, the Total Return Swap, the Custody Agreement, the Deposit Assignment Agreement, the Deposit Agreement and the factors set out in "*Risk Factors*" below. If you are in any doubt about the contents of this Information Memorandum or any of the aforesaid documents you should consult your financial, legal and other professional advisers.

The Issuer accepts responsibility for all the information contained in this Information Memorandum, except for the information under the headings "*Description of Banca Intesa Banca Commerciale Italiana S.p.A.*", "*Description of Merrill Lynch International*" and "*Description of Merrill Lynch & Co., Inc.*" and the information under "*Summary of the Reference Portfolio*", "*Summary of the Credit Approval Process of IntesaBci and its Subsidiaries*" and "*Summary of the Principal Types of Transaction forming part of the Initial Reference Portfolio*" and Tables 1 to 9 in the section headed "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*" (the *Issuer Information*). To the best of the knowledge and belief of the Issuer, the Issuer Information is in accordance with the facts and does not omit anything likely to affect the import of such information. IntesaBci accepts responsibility for the information contained in this Information Memorandum under the heading "*Description of Banca Intesa Banca Commerciale Italiana S.p.A.*" and "*Summary of the Reference Portfolio*", "*Summary of the Credit Approval Process of IntesaBci and its Subsidiaries*" and "*Summary of the Principal Types of Transaction forming part of the Initial Reference Portfolio*" and Tables 1 to 9 in the section headed "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*" (the *IntesaBci Information*). To the best of the knowledge and belief of IntesaBci, the IntesaBci Information is in accordance with the facts and does not omit anything likely to affect the import of such information. IntesaBci accepts no responsibility with regard to the contents of this Information Memorandum other than the IntesaBci Information. MLI accepts responsibility for the information contained in this Information Memorandum under the heading "*Description of Merrill Lynch International*" (the *MLI Information*). To the best of the knowledge and belief of MLI, the MLI Information is in accordance with the facts and does not omit anything likely to affect the import of such information. MLI accepts no responsibility with regard to the contents of this Information Memorandum other than the MLI Information. The Swap Guarantor accepts responsibility for the information contained in this Information Memorandum under the heading "*Description of Merrill Lynch & Co., Inc.*" (the *Swap Guarantor Information*). To the best of the knowledge and belief of the Swap Guarantor, the Swap Guarantor Information is in accordance with the facts and does not omit anything likely to affect the import of such information. The Swap Guarantor accepts no responsibility with regard to the contents of this Information Memorandum other than the Swap Guarantor Information.

No person has been authorised to give any information or make any representation in connection with the offering of the Notes save as contained in this Information Memorandum and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or Merrill Lynch International, Banca Intesa Banca Commerciale Italiana S.p.A. or Credit Agricole Indosuez (collectively the *Note Placement Agents*). Neither the delivery of this Information Memorandum nor any sale or allotment made in connection with the issue of the Notes shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as at any time subsequent to the date hereof or that there has been no adverse change, or

any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date hereof.

This Information Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Note Placement Agents to subscribe for or purchase, any of the Notes. It may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. Other than the approval by the Irish Stock Exchange of this Information Memorandum as listing particulars in accordance with the requirements of the Regulations and the delivery of a copy of this Information Memorandum to the Registrar of Companies in the Republic of Ireland for registration in accordance with the Regulations, no action is being taken to permit an offering of the Notes or the distribution of this Information Memorandum in any jurisdiction where such action is required.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the *Securities Act*), or any state securities laws and the Notes may not be offered or sold within the United States or to US Persons (as defined under the heading "*Subscription, Sale and Distribution*") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or applicable state laws.

The distribution of the Information Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law; persons into whose possession this Information Memorandum comes are required by the Issuer and the Note Placement Agents to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offerings and sales of the Notes and on distribution of this Information Memorandum, see "*Subscription, Sale and Distribution*" below.

An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such an investment.

References to *€*, *EUR* or *Euro* are to the currency introduced at the commencement of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25th March 1957) as amended by the Treaty on European Union (signed in Maastricht on 7th February 1992), as further amended from time to time.

References to *USD*, *US Dollar* or *\$* are to the lawful currency of the United States of America.

Capitalised terms used in this Information Memorandum and not otherwise defined bear the meanings ascribed to them in the Credit Default Swap, the Total Return Swap, the IGB Purchase Agreement, the Trust Deed, the Conditions or the Note Placement Agreement (as defined in "*Subscription, Sale and Distribution*" below) as applicable.

In connection with the issue and distribution of the Notes, MLI in its capacity as Note Placement Agent may, unless otherwise agreed by the Note Placement Agents, 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. Such stabilising shall be in compliance with all relevant laws and regulations.

## TABLE OF CONTENTS

	<i>Page</i>
1. Summary .....	6
2. Risk Factors .....	22
3. Use of Proceeds .....	30
4. The Reference Portfolio — Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics .....	31
5. Description of Banca Intesa Banca Commerciale Italiana S.p.A. ....	47
6. Description of Merrill Lynch International .....	59
7. Description of Merrill Lynch & Co., Inc. ....	59
8. Description of the Credit Default Swap .....	60
9. The IGB Purchase Agreement and the Total Return Swap.....	70
10. The Issuer .....	74
11. Rating of the Notes .....	78
12. Description of the Notes whilst in global form.....	79
13. Terms and Conditions of the Notes .....	81
14. Subscription, Sale and Distribution.....	99
15. The Republic of Ireland Taxation .....	102
16. United Kingdom Taxation .....	105
17. Listing and General Information .....	107

## SUMMARY

The information set out on pages 6 through 21 is a summary of the principal features of the transaction. This summary should be read in conjunction with, and is qualified in its entirety by reference to, the detailed information appearing elsewhere in this Information Memorandum and to the terms of the Trust Deed, the Notes, the Credit Default Swap, the Tripartite Agreement, the Swap Guarantee, the IGB Purchase Agreement, the Total Return Swap, the Deposit Agreement, the Deposit Assignment Agreement and the Custody Agreement.

### **Transaction Summary:**

Merrill Lynch International (the *Credit Default Swap Counterparty*) is entering into credit default swap transactions in relation to a notional portfolio of obligations (the *Initial Reference Portfolio*) with an aggregate notional amount, after conversion into US Dollars at the Relevant Fixed Exchange Rate (as defined below), of USD 1,009,456,000 as at 1 May 2001 (the *Portfolio Composition Date*). The Credit Default Swap to which the Issuer, the Credit Default Swap Counterparty and the Servicer are parties represents one such credit default swap. The Credit Default Swap has a notional amount of EUR 173,600,000 and relates to any aggregate diminution in the value of Reference Obligations (as defined below) including any related collateral upon the occurrence of a Credit Event and subject to the satisfaction of certain conditions with respect to one or more such Reference Obligation, in excess of USD 65,614,640 (the *Threshold Amount*).

**Principal Characteristics of the Notes:** The Notes represent three tranches of risk in the Reference Portfolio for an aggregate amount of EUR 173,600,000 and correspond to the risk taken by the Issuer under the Credit Default Swap. These three tranches are represented by the Class C Notes (which represent the risk of total notional losses exceeding the Threshold Amount but being less than the Euro equivalent (converted at the Euro Fixed Exchange Rate) of USD 95,898,320 in the Reference Portfolio), the Class B Notes (which represent the risk of total notional losses being between the Euro equivalent of USD 95,898,320 and the Euro equivalent of USD 171,607,520 in the Reference Portfolio) and the Class A Notes (which represent the risk of total notional losses being between the Euro equivalent of USD 171,607,520 and the Euro equivalent of USD 222,080,320 in the Reference Portfolio). The obligations forming part of the Reference Portfolio and represented by these tranches are referred to in this Information Memorandum as the *Reference Obligations*.

The principal amount payable to the Noteholders under the Notes will be reduced by the amount of any payment required to be made by the Issuer under the Credit Default Swap. Total notional losses will be calculated in US Dollars and will be converted into Euro at an exchange rate fixed on the Closing Date by the Credit Default Swap Counterparty (the *Euro Fixed Exchange Rate*) and will reduce first the Principal Amount Outstanding of the Class C Notes, then the Principal Amount Outstanding of the Class B Notes and finally the Principal Amount Outstanding of the Class A Notes, each to zero.

If the Deposit Bank fails to pay any amount owing to the Issuer pursuant to the terms of the Deposit Agreement (the *Deposit Default Amount*) then, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Deposit Bank and/or where the amount is paid within two Business Days of the due date, the Principal Amount Outstanding of the Class C Notes shall be reduced in an amount equal to such Deposit Default Amount.

If the principal amount payable to the Noteholders under the Notes has been reduced by the amount of any payment required to be made by the Issuer under

the Credit Default Swap and the Servicer or any of the Relevant Subsidiaries (as defined below) receives a Late Recovery or an Estimated Late Recovery is determined prior to or on the Final Settlement Date, the Credit Default Swap Counterparty shall pay the Net Late Recovery Amount or Net Estimated Late Recovery Amount (as the case may be) to the Issuer on the Floating Rate Payment Date immediately following such receipt or determination (as the case may be) provided that (x) the aggregate of the Net Late Recovery Amounts together, where applicable, with the Net Estimated Late Recovery Amount received by the Servicer and the Relevant Subsidiaries or estimated exceeds the Recovery Threshold and (y) the aggregate of the Late Recovery Payments shall not exceed the Recovery Limit (as such terms are defined in "*Description of the Credit Default Swap*" below).

If the Issuer receives any Late Recovery Payment or Estimated Late Recovery Payment (as such terms are defined in "*Description of the Credit Default Swap*" below) from the Credit Default Swap Counterparty on any Floating Rate Payment Date, the principal amount payable to the Noteholders under the Notes will be reinstated as at that Floating Rate Payment Date in an aggregate amount equal to any such receipt. Such recoveries will be used first to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes and, following reinstatement in full of the Class A Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class B Notes and, following reinstatement in full of the Class B Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class C Notes. Interest on such reinstated amounts shall only accrue from the date of such reinstatement.

For the avoidance of doubt, the Issuer shall at no time have a direct right or claim against the Servicer or any Relevant Subsidiary (as defined below) in respect of any Late Recovery Payment or Estimated Late Recovery Payment under the Credit Default Swap or any other Relevant Document (as defined in the Trust Deed).

**The Credit Default Swap:** Under the terms of the Credit Default Swap the Credit Default Swap Counterparty is obliged to make periodic payments in Euro to the Issuer. The obligations of the Credit Default Swap Counterparty under the Credit Default Swap have been unconditionally guaranteed by the Swap Guarantor. The Issuer will be required to make payments to the Credit Default Swap Counterparty in Euro under the Credit Default Swap by reference to the aggregate diminution in the value of Reference Obligations including any related collateral upon the occurrence of a Credit Event and subject to the satisfaction of certain conditions with respect to such Reference Obligation, provided that the aggregate of such diminutions exceeds the Threshold Amount. The Issuer will use the balance standing to the credit of the Cash Deposit Account with the Deposit Bank and, if any such amount is insufficient, the proceeds from the sale of the IGBs referred to in the following paragraph to fund any payments to be made by it under the Credit Default Swap.

**Utilisation of Proceeds:** The Issuer will utilise the proceeds of the issue of the Class A Notes and the Class B Notes to acquire IGBs from IntesaBci S.p.A., London Branch pursuant to the IGB Purchase Agreement, which securities will be held in a separate securities account at Monte Titoli by or on behalf of the Custodian pursuant to the Custody Agreement. The Custody Agreement will be governed by English law and provide for the jurisdiction of the English courts. Pursuant to the Deposit Assignment Agreement, the proceeds of the Class C Notes

will be utilised in acquiring an interest bearing Euro deposit of an equal amount held in the Cash Deposit Account in London with the Deposit Bank pursuant to the Deposit Agreement. The Deposit Assignment Agreement will be governed by English law and provide for the jurisdiction of the courts of the Republic of Ireland. The Deposit Agreement will be governed by English law and provide for the jurisdiction of the English courts. The balance standing to the credit of the Cash Deposit Account shall be referred to herein as the *Cash Deposit*. Interest shall accrue on the Cash Deposit at the rate per annum determined by the Note Calculation Agent (as defined below) (in the same manner as it determines the interest rate payable on the Notes – see “*Interest on the Notes*” below) to be EURIBOR and shall be transferred to the Issuer Account (as defined in “*Collections*” below) on each Interest Payment Date.

**The Total Return Swap:** Under the terms of the Total Return Swap, the Issuer is obliged to pay an amount equal to the fixed or floating interest, if any, received by it on the IGBs to the Total Return Swap Counterparty within two Business Days of any such receipt. The Total Return Swap Counterparty will be required to make floating rate payments in Euros, based on EURIBOR, to the Issuer. Upon the sale of IGBs from time to time by the Issuer, the Issuer may be required to pay, or be entitled to receive, additional payments in Euros under the Total Return Swap. See – “*Description of the Total Return Swap*” below. The obligations of the Total Return Swap Counterparty have been unconditionally guaranteed by the Swap Guarantor.

**Security:** The Issuer will grant security over all its assets including its rights under the Credit Default Swap, the Tripartite Agreement, the Swap Guarantee, the IGB Purchase Agreement, the Total Return Swap, the Corporate Administration Agreement, the Custody Agreement, the Deposit Assignment Agreement and the Deposit Agreement pursuant to the Trust Deed (the *Charged Property*). Such security shall be held by the Trustee for the benefit of itself and any receiver appointed by the Trustee under the Trust Deed, the Noteholders, the Couponholders, the Paying Agents, the Corporate Administrator, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian under the Trust Deed.

The terms upon which the Trustee holds the security described above will be set out under the Trust Deed. The claims of the Trustee for itself and any receiver appointed by the Trustee under the Trust Deed, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian will rank in priority to the claims of the Noteholders and the Couponholders (if any).

The Trust Deed provides that the Trustee may retire at any time on giving not less than 3 months’ prior written notice to the Issuer and that the Trustee may be removed by an extraordinary resolution of the Class A Noteholders (or, if there are no Class A Notes outstanding, the Class B Noteholders or, if there are no Class A Notes or Class B Notes outstanding, the Class C Noteholders). The retirement or removal of the Trustee shall not become effective until a successor Trustee is appointed. The power to appoint a new Trustee is vested in the Issuer with the approval of an extraordinary resolution of the Class A Noteholders (or, if there are no Class A Notes outstanding, the Class B Noteholders or, if there are no Class A Notes or Class B Notes outstanding, the Class C Noteholders).



**Limited Recourse:**

The liability of the Issuer, upon any redemption or repayment of the Notes, to make the relevant payments in respect of the principal of and interest on the Notes and to make any payment due to the Trustee, any Paying Agent, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian may only be satisfied out of the Issuer's interest in the Charged Property. None of the Trustee, the Noteholders or the Couponholders shall have any other recourse in respect of such payments against the Issuer nor shall the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the Custodian or the IGB Purchase Counterparty have any other such recourse.

**Issuer:**

Leonardo Synthetic Public Limited Company, a public company limited by shares incorporated in the Republic of Ireland with registered number 341696. The whole of the issued share capital of the Issuer is held, directly or through its nominees, by SFM Corporate Services Limited (the *Share Trustee*) as trustee of an English charitable trust in favour of the INSEAD Trust for European Management Education or other charities with management education as their object. The Issuer has been incorporated for the sole purpose of issuing the Notes, acquiring the IGBs and the Cash Deposit and entering into the Credit Default Swap, the Total Return Swap, the IGB Purchase Agreement, the Deposit Agreement and the Custody Agreement described herein and entering into the other transactions and agreements described in this Information Memorandum.

**The Notes:**

EUR 56,000,000 Class A Secured Floating Rate Notes due 20 June 2019 (the *Class A Notes*), EUR 84,000,000 Class B Secured Floating Rate Notes due 20 June 2019 (the *Class B Notes*) and EUR 33,600,000 Class C Secured Floating Rate Notes due 20 June 2019 (the *Class C Notes*).

**Issue Date:**

11 May, 2001 (the *Closing Date*).

**Credit Default Swap Counterparty:**

Merrill Lynch International.

**Swap Guarantor:**

Merrill Lynch & Co., Inc.

**Servicer:**

Banca Intesa Banca Commerciale Italiana S.p.A. acting, where appropriate, through its subsidiaries.

**Reference Portfolio Summary:**

The aggregate of the Reference Obligation Notional Amount (as defined in the Credit Default Swap) of Reference Obligations forming part of the Reference Portfolio on the Portfolio Composition Date is, after conversion into US Dollars at the Relevant Fixed Exchange Rate, USD 1,009,456,000 (the *Initial Principal Balance*). The Reference Portfolio comprises Reference Obligations in respect of a number of obligors (the *Reference Entities*) either originated, or acquired from the originator, by the Servicer or one of the subsidiaries of the Servicer. Each Reference Obligation relates to either the financing or refinancing of the acquisition of one or more aircraft (and any spare engines or other aircraft related equipment in respect of such aircraft which are the subject matter of the relevant agreement) (the *Relevant Aircraft*) or an unsecured loan to an aircraft manufacturer and is denominated in the legal currency of a country having a foreign currency debt rating from at least two of the Rating Agencies and, if so rated, of at least AA- from S&P, AA- from Fitch and Aa3 from Moody's at the

time the Reference Obligation was added to the Reference Portfolio. Each Relevant Aircraft has been acquired either directly or indirectly by a specified airline or head lessee (the *Relevant Airline*) which did not have an external rating below B- from S&P, B- from Fitch or B3 from Moody's at the time the Reference Obligation was added to the Reference Portfolio.

The aggregate Reference Obligation Notional Amount converted into US Dollars at the Relevant Fixed Exchange Rate of Reference Obligations referred to or guaranteed by any Relevant Airline shall not exceed the stated percentage of the Initial Principal Balance appearing against such Relevant Airline in the Credit Default Swap, which in the case of British Airways PLC (*BA*), Koninklijke Luchvaart Maatschappij N.V. (*KLM*), Alitalia Linee Aeree Italiana S.p.A. (*Alitalia*), Société Air France (*Air France*), Scandinavian Airlines System (*SAS*), Air New Zealand Limited (*Air New Zealand*) and Iberia Lineas Aereas de España SA (*Iberia*) is the percentage appearing against such airlines in Table 10 below, and, in the case of any other Relevant Airline, 3%. In respect of each Relevant Airline, such Relevant Airline shall, at the time the Reference Obligation was added to the Reference Portfolio, have been domiciled in a country that had a sovereign credit rating from at least two of the Rating Agencies and, if so rated, of at least investment grade, or appropriate insurance, indemnities, guarantees or similar political risk cover (forming part of the Relevant Aircraft Collateral (as defined in "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*" below) in respect of such Reference Obligation) against the risk of failure to enjoy continued undisturbed use of, and access to, the Relevant Aircraft due to political factors, such political risk cover being from an acceptable third party (including, without limitation, an export credit agency, insurance company or aircraft manufacturer) that had a credit rating from at least two of the Rating Agencies and, if so rated, of at least investment grade.

For the avoidance of doubt, the Reference Obligation Notional Amount may not correspond to the outstanding nominal amount held by the Servicer in respect of the underlying loan transaction. The Reference Obligation Notional Amount shall not increase other than by way of Replenishment or Substitution (as defined below).

For further detailed information including detailed information about the eligibility criteria relating to the Initial Reference Portfolio, see – "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*".

***Interest on the Notes:***

The interest rate (the *Interest Rate*) on the Notes will be determined by the Note Calculation Agent in accordance with Condition 2.3 by reference to the Screen Rate (as defined therein) or such other rate as is determined by the Note Calculation Agent for the purpose thereof for EURIBOR (adjusted, in the case of the Initial Interest Period, in accordance with Linear Interpolation) plus:

- (a) in the case of the Class A Notes, a margin of 0.45 per cent. per annum;
- (b) in the case of the Class B Notes, a margin of 0.70 per cent. per annum; and
- (c) in the case of the Class C Notes, a margin of 1.15 per cent. per annum.

The Interest on each class of Notes will be calculated by reference to the relevant Interest Rate and the Principal Amount Outstanding at the beginning of the Initial

Interest Period and each Additional Interest Period (as the case may be) with respect to the specific class of Notes.

**Collections:**

The Issuer will receive quarterly payments in Euro from the Credit Default Swap Counterparty under the Credit Default Swap as described under “*Description of the Credit Default Swap*”, the Total Return Swap Counterparty under the Total Return Swap as described under “*Description of the Total Return Swap*” and the Deposit Bank in respect of the Cash Deposit under the Deposit Agreement. All such payments will be deposited in a Euro account of the Issuer at the Bank (the *Issuer Account*) operated pursuant to the Banking Services Agreement at its branch located at Ashford House, Tara Street, Dublin 2, Ireland.

On each Interest Payment Date, amounts standing to the credit of the Issuer Account will be allocated and applied by the Principal Paying Agent to pay amounts payable under the Notes after such moneys have been applied in making any payments due to the Trustee, the Paying Agents, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Sale Counterparty, the Corporate Officers Provider, the Corporate Administrator, the Bank and the Custodian.

**Events of Default:**

Each of the following events constitutes an “Event of Default” in respect of the Notes:

- (a) the Issuer defaults in the payment of any interest or principal due in respect of any Note, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Issuer and where the amount is paid within three Business Days of the due date;
- (b) the Issuer becomes subject to certain insolvency events specified in the Conditions; or
- (c) the Issuer fails to perform or observe any of its other obligations under the Notes or the Trust Deed and, if such failure is capable of remedy, such failure continues for a period of 30 calendar days following the delivery by the Trustee to the Issuer of notice requiring the same to be remedied.

Upon the occurrence of an Event of Default, the Trustee may and, if so requested in writing by the holders of at least one fifth in aggregate principal amount of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes) or by an Extraordinary Resolution (as defined in the Conditions) of Class A Noteholders (or, if there are no Class A Notes outstanding, the Class B Noteholders or, if there are no Class A Notes or Class B Notes outstanding, the Class C Noteholders) in each case if indemnified to its satisfaction, shall declare the Notes due and payable provided that in relation to paragraphs (b) and (c), it shall have certified to the Issuer that the happening of such event is in its opinion material to Noteholders.

An Event of Default does not, however, arise by virtue of a reduction in the Principal Amount Outstanding of the Notes as a result of a payment being made by the Issuer under the Credit Default Swap.

**Redemption:**

*Final Redemption*

Unless previously redeemed in full, each Class of Notes will be redeemed at its Principal Amount Outstanding on 20 June 2019.

On any redemption of the Notes (including a mandatory redemption following termination of the Credit Default Swap or the Total Return Swap referred to below), the Issuer will be required to apply its available assets *pro rata* and *pari passu* in redemption of the Class A Notes and unpaid accrued interest thereon and, following the redemption in full of the Class A Notes, *pro rata* and *pari passu* in redemption of the Class B Notes and unpaid interest accrued thereon and, following the redemption in full of the Class B Notes, *pro rata* and *pari passu* in redemption of the Class C Notes and unpaid accrued interest thereon.

*Mandatory Redemption following termination of the Credit Default Swap or the Total Return Swap*

The terms of the Credit Default Swap provide, at the option of the Credit Default Swap Counterparty only and with 10 Business Days prior written notice, for its termination provided, in the case of (i), (ii) and (iii) below, that notice has been given to terminate the Hedging Swap (as defined below) (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap): (i) on any Fixed Rate Payment Date in the event that the aggregate Reference Obligation Notional Amount of all outstanding Reference Obligations falls below 10% of the Initial Principal Balance; (ii) on any Fixed Rate Payment Date occurring on or after the third anniversary of the Closing Date, upon the occurrence of an Adverse Change (as defined below); and (iii) on the Fixed Rate Payment Date falling on 20 June 2006 and 20 June 2013 or, in each case, on the next following Fixed Rate Payment Date; and (iv) if notice has been given to terminate the Hedging Swap in accordance with its terms for any reason whatsoever by either party thereto except where the Credit Default Swap is to be novated in accordance with the provisions of the Tripartite Agreement (such terms as defined below) (see "*Description of the Credit Default Swap*"). The Fixed Rate Payment Date designated by the Credit Default Swap Counterparty as the date on which the Credit Default Swap will terminate is referred to as the *Optional Termination Date*.

An *Adverse Change* occurs if (a) as a result of any enactment of or supplement or amendment to, or change in, the laws of the Republic of Italy or (b) as a result of (x) an official communication of previously not existing or not publicly available official interpretation of such laws, or (y) a change in the official interpretation, implementation or application of such laws that (in the case of (a) or (b)) becomes effective on or after the Closing Date, the Servicer would, for reasons outside its control, and after taking reasonable measures (such measures not involving any material additional payment by, or capital or other expenses for, the Servicer), be subject to less favourable capital adequacy treatment with respect to (i) the risk weighting of the Hedging Swap Protection Seller (taking into account any capital relief resulting from the Hedging Swap (as described in "*Obligation to effect changes to the Reference Portfolio*" below)) (such terms as defined below) or any collateral provided in respect of the Hedging Swap and/or (ii) the amount of the regulatory capital relief obtained in respect of any Reference Obligation as a result of a reduction of the risk weighting factor for such Reference Obligation as a result of the Servicer entering into the Hedging Swap by comparison to the risk weighting factor applicable on the Closing Date or, if applicable, the date such Reference Obligation was added to the Reference Portfolio by way of Replenishment or Substitution as described below.

The Credit Default Swap may also terminate on any date upon the occurrence of certain Events of Default or Termination Events (see "*Description of the Credit*

*Default Swap*”). The Total Return Swap may also terminate at any date upon the occurrence of certain Events of Default or Termination Events (see “*Description of the Total Return Swap*”). In the event that either the Credit Default Swap or the Total Return Swap is terminated owing to any of the reasons referred to in this paragraph, the Issuer shall redeem the Notes at their Principal Amount Outstanding together with all unpaid accrued interest thereon.

#### *Partial redemption following amortisation of the Reference Portfolio*

On each Fixed Rate Payment Date falling on or after 20 June 2006, the Fixed Rate Payer Notional Amount (as such term is defined in the Credit Default Swap) will automatically be reduced in an amount equal to any Cancelled Amount (as defined below) (other than a Cash Settlement Amount) in respect of the immediately preceding Calculation Period (as such term is defined in the Credit Default Swap) provided and to the extent that the Aggregate Cancelled Amount (as defined below) exceeds USD 787,375,680 (the *Amortisation Threshold*). On each such date the Issuer will be required to apply an amount equal to such Cancelled Amount in each case *pro rata* and *pari passu* in redemption of the Class A Notes and unpaid interest accrued thereon, and following the redemption in full of the Class A Notes, *pro rata* and *pari passu* in redemption of the Class B Notes and unpaid interest accrued thereon, and following the redemption in full of the Class B Notes, *pro rata* and *pari passu* in redemption of the Class C Notes and unpaid interest accrued thereon.

If, pursuant to any such partial redemption, the Principal Amount Outstanding of any Note is, or is reduced to, zero, such Note shall thereupon be redeemed without any further act and no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

Except to the extent at any time that the redemption payments in an amount equal to the Cancelled Amount can be made from amounts standing to the credit of the Issuer Account (after any interest payments to be made on the Notes on such date and before the sale of any IGBs and any payments under the Total Return Swap as a result of the sale of the IGBs in the manner described in “*Description of the Total Return Swap*” below) (the *Issuer Account Surplus*) such redemption payment will be funded first from the payments received from the Total Return Swap Counterparty after the sale of IGBs by the Issuer and thereafter from amounts standing to the credit of the Cash Deposit.

#### *Retention*

If there has been a Credit Event with respect to any of the Reference Obligations (as defined in the Credit Default Swap) and certain conditions have been satisfied (including the service of notice of a Credit Event prior to the Maturity Date (as defined in the Conditions) or Redemption Date (as defined below)) and the Cash Settlement Amount (as defined in “*Description of the Credit Default Swap – Payment by the Issuer*” below) in relation to any such Reference Obligation under the Credit Default Swap (that is, the amount, if any, payable by the Issuer to the Credit Default Swap Counterparty by reference to the aggregate diminution in the value of such Reference Obligations including any related collateral) has not been paid by the Maturity Date or any earlier date upon which the Notes or any of them are to be redeemed in accordance with Condition 3.3 or 3.4 (the *Redemption Date*) then:

- (a) on the Maturity Date or, as the case may be, the Redemption Date, the Issuer shall apply an amount equal to the Principal Amount Outstanding of the Notes and unpaid interest accrued thereon less the aggregate Reference Obligation Notional Amount of all such Reference Obligations (the *Retained Amount*); and
- (b) with respect to each such Reference Obligation as soon as practicable after the Valuation Date (as defined in "*Description of the Credit Default Swap*" below) in respect of such Reference Obligation but in any event not later than the Final Settlement Date, the Issuer shall be required to apply an amount equal to the Retained Amount relating to such Reference Obligation less the Cash Settlement Amount required to be paid by it to the Credit Default Swap Counterparty under the Credit Default Swap in respect of such Reference Obligation,

in each case *pro rata* and *pari passu* in redemption of the Class A Notes and unpaid interest accrued thereon and, following the redemption in full of the Class A Notes, *pro rata* and *pari passu* in redemption of the Class B Notes and unpaid interest accrued thereon and, following the redemption in full of the Class B Notes, *pro rata* and *pari passu* in redemption of the Class C Notes and unpaid interest accrued thereon.

#### *Optional Redemption for Taxation Reasons*

The Issuer shall redeem all (but not some only) of the Notes at their Principal Amount Outstanding together with unpaid accrued interest, if instructed by an Extraordinary Resolution of the Class A Noteholders or, if there are no Class A Notes outstanding, the Class B Noteholders or, if there are no Class B Notes outstanding, the Class C Noteholders in the event that the Issuer (i) is obliged as a result of any change in applicable law with respect to taxation in the Republic of Ireland or the United Kingdom, to make any withholding or deduction from payments in respect of the Notes by reason of Irish or United Kingdom taxation changes, (ii) would be subject to any circumstance or to a tax charge which would materially increase its costs of complying with its obligations in respect of the Notes or materially increase its costs of complying with its obligations in respect of the Notes or materially increase its costs or administrative expenses, or (iii) will, as a result of any change in applicable law, receive insufficient moneys in respect of its assets to meet its obligation to pay interest on the Notes (although the Issuer will not have any obligation to pay additional amounts in respect of such redemption); provided however that the Issuer shall notify the Credit Default Swap Counterparty of such event, and the Credit Default Swap Counterparty shall have the right, but not the obligation, to pay such additional amounts to the Issuer under the Credit Default Swap so as to ensure that the Issuer is able to make payments to the Noteholders as if the events described in (i), (ii) and (iii) above had not occurred.

#### *Partial reduction following default by the Deposit Bank.*

If the Deposit Bank fails to pay any amount owing to the Issuer pursuant to the terms of the Deposit Agreement, then, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Deposit Bank and/or where the amount is paid within two Business Days of the due date, an amount equal to the Deposit Default Amount will be applied in each

case *pro rata* and *pari passu* in the reduction of the Principal Amount Outstanding of the Class C Notes.

If, pursuant to any such partial reduction, the Principal Amount Outstanding of any Class C Note is, or is reduced to, zero, such Class C Note shall thereupon be redeemed without any further act. Subject to Condition 3.8 no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

***Issuer Payments under the  
Credit Default Swap:***

The Issuer may be required to make payments of a Cash Settlement Amount to the Credit Default Swap Counterparty under the Credit Default Swap following the occurrence of any Credit Event (being Bankruptcy or Failure to Pay) (as defined in "*Description of the Credit Default Swap – Credit Event Definitions*") and the satisfaction of certain conditions in relation to any Reference Entity, Relevant Airline or Reference Obligation calculated by reference to the aggregate diminution in value of the relevant Reference Obligations, but only to the extent that the aggregate of such Cash Settlement Amounts arising from the Reference Obligations exceeds the Threshold Amount.

If on any date the Issuer is required to pay a Cash Settlement Amount (as defined in "*Description of the Credit Default Swap – Payments by the Issuer*" below) to the Credit Default Swap Counterparty under the Credit Default Swap, then, except to the extent at any time such payment can be made from the Issuer Account Surplus, and, if such amounts are insufficient, from the Cash Deposit, such payment of the Cash Settlement Amount will be funded from the proceeds received from the sale of IGBs by the Issuer and, to the extent that the net proceeds from such sale are insufficient to pay in full the Cash Settlement Amount, the Total Return Swap Counterparty shall pay such shortfall to the Issuer (as described in "*Description of the Total Return Swap*" below).

An amount equal to the Cash Settlement Amount, if any, which is expressed in US Dollars will be converted into a Euro amount at the Euro Fixed Exchange Rate and will be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class C Notes by making a rateable reduction in the Principal Amount Outstanding of each Class C Note. If and to the extent that the aggregate Principal Amount Outstanding of the Class C Notes (after taking account of any previous reduction or reinstatement thereof in accordance with Condition 3.1 and Condition 7.3 respectively and the Trust Deed) is, or is reduced to, zero, such amounts shall be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class B Notes, by making a rateable reduction in the Principal Amount Outstanding of each Class B Note. If and to the extent that the aggregate Principal Amount Outstanding of the Class B Notes (after taking account of any previous reduction or reinstatement thereof in accordance with Condition 3.1 and Condition 7.3 respectively and the Trust Deed) is, or is reduced to, zero, such amounts shall be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes, by making a rateable reduction in the Principal Amount Outstanding of each Class A Note until such Principal Amount Outstanding is reduced to zero.

If the Principal Amount Outstanding of any Note is so reduced to zero, such Note shall, pursuant to the provisions of Condition 3.1(b), not be redeemed and cancelled. In the event that the Issuer subsequently receives any Late Recovery Payment or Estimated Late Recovery Payment from the Credit Default Swap Counterparty, then the Principal Amount Outstanding of the Notes will be

reinstated on the Interest Payment Date on or immediately following such receipt in an aggregate amount equal to any such receipt. Such receipt will be used first to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes and, following reinstatement in full of the Class A Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class B Notes and, following reinstatement in full of the Class B Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class C Notes.

***Euro Fixed Exchange Rate:*** Any amount to be converted from Euro to US Dollars or US Dollars to Euro shall be determined by converting the Euro amount thereof into US Dollars at the rate of EUR 1.10951 per USD.

***Relevant Fixed Exchange Rate:*** Any amount denominated in a currency other than US Dollars which is to be converted into US Dollars shall be converted at the rate of such currency per US Dollar as set out in Annex F to the Credit Default Swap.

***Unused Capacity:*** If a Reference Obligation is prepaid, repaid or cancelled by the relevant Reference Entity or amortises, the Credit Default Swap Counterparty may add the sum of (i) the actual amortisation of each Reference Obligation (excluding negative amortisation) multiplied by the relevant Servicer's Debt Percentage (as defined below) and (ii) the notional amount corresponding to the amount by which any Reference Obligation (or any portion thereof) has been otherwise repaid, prepaid or cancelled, multiplied by the relevant Servicer's Debt Percentage (the ***Amortisation Amount***) to a reserve pool. The aggregate of such Amortisation Amounts less the aggregate of the Reference Obligation Notional Amounts of all the Reference Obligations previously added to the Reference Portfolio by way of Replenishment (as defined below) (the ***Unused Capacity***) shall be expressed in US Dollars, each amount having been converted into US Dollars at the Relevant Fixed Exchange Rate.

The Credit Default Swap Counterparty shall, to the extent required pursuant to clause 5(h) of the Credit Default Swap (as described in "***Obligation to effect changes to the Reference Portfolio***" below), cancel an amount of Unused Capacity (each such amount being a ***Cancelled Amount***). At the end of the Replenishment Period (as defined below) the Unused Capacity shall be cancelled and the amount of such Unused Capacity shall be a Cancelled Amount. Thereafter each Amortisation Amount shall be deemed to be a Cancelled Amount. The aggregate of all Cancelled Amounts from time to time is referred to as the ***Aggregate Cancelled Amount***.

***Obligation to effect changes to the Reference Portfolio:*** On the Closing Date, MLI (in such capacity, the ***Hedging Swap Protection Seller***) will enter into a credit default swap (the ***Hedging Swap***) with IntesaBci S.p.A., London Branch (in such capacity, the ***Hedging Swap Protection Buyer***). The Hedging Swap will be concluded on terms substantially similar to the Credit Default Swap. The Hedging Swap contains provisions which, save for the references to the parties therein, are identical to the Claim Eligibility Criteria, the Replenishment Conditions, the Substitution Conditions (as such terms are defined below), the concentration thresholds as set out in paragraph (iv) of the Replenishment Conditions below (the ***Concentration Thresholds***), the Servicing Conditions (as defined below) and the clauses in the Credit Default Swap relating to the removal or replacement of any Non-Eligible Reference Obligation (as defined below), the cancellation of Unused Capacity, the determination of the occurrence of Credit Events and the calculation of Cash Settlement Amounts (other than the maximum aggregate Cash Settlement Amount payable



thereunder). The initial reference portfolio under the Hedging Swap (the *Hedging Swap Reference Portfolio*) will be identical in all respects to the Initial Reference Portfolio.

To ensure that the Reference Portfolio reflects any changes made to the Hedging Swap Reference Portfolio by the Hedging Swap Protection Buyer, clause 5(h) of the Credit Default Swap provides that the Credit Default Swap Counterparty shall, under the terms of the Credit Default Swap, be obliged to and may only effect any Replenishment, Substitution, removal or replacement of a Non-Eligible Reference Obligation or cancellation of Unused Capacity, if and to the extent that the Hedging Swap Protection Buyer effects such a change to the Hedging Swap Reference Portfolio thereunder (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap). The Hedging Swap Protection Buyer shall, however, obtain the prior consent of the Credit Default Swap Counterparty to any addition to the Hedging Swap Reference Portfolio by way of Replenishment or Substitution of (i) a Reference Obligation relating to a Reference Airline domiciled in an Emerging Market that does not have an Investment Grade rating from at least one of the Rating Agencies or (ii) a Reference Obligation which is a Letter of Credit. The prior consent of the Credit Default Swap Counterparty to any Replenishment or Substitution shall also be required if the aggregate Reference Obligation Notional Amount of Discharged Reference Obligations (as defined below) exceeds 23% of the Initial Principal Balance.

**Replenishment:**

On each 20 June and 20 December (each such date a *Replenishment Date*) in the period commencing on 20 December 2001 and continuing until (but excluding) the earlier of (i) 20 December 2005 and (ii) the date on which the aggregate Credit Protection Amounts determined exceed 3% of the Initial Principal Balance (the *Replenishment Period*) to the extent required pursuant to clause 5(h) of the Credit Default Swap (as described in "*Obligation to effect changes to the Reference Portfolio*" above), the Credit Default Swap Counterparty shall, without the consent of the Trustee but subject to confirmation from each of the Rating Agencies that the addition of such Reference Obligations will not result in a reduction or withdrawal of the then ratings of the outstanding Notes add new Reference Obligations to the Reference Portfolio, provided that all the Replenishment Conditions (as defined below) are met as of the relevant Replenishment Date. Once a Credit Protection Amount (as defined in "*Risk Factors*" below) with a value greater than zero has been determined pursuant to the Credit Default Swap, no further Replenishment shall be effected unless the prior confirmation of the Rating Agencies has been obtained.

The aggregate Reference Obligation Notional Amounts of all the Reference Obligations which are to be added to the Reference Portfolio on such Replenishment Date (but excluding the aggregate Reference Obligation Notional Amount of new Reference Obligations being added to the Reference Portfolio by way of substitution— see "*Substitution Rights*" below) shall not at any time (a) exceed the Unused Capacity less the aggregate of all Cancelled Amounts prevailing at such time or (b) result in the Aggregate Coverage Amount (as defined in the Credit Default Swap) exceeding the Maximum Portfolio Amount (as defined in "*Description of the Credit Default Swap*" below).

**Substitution Rights:**

On each 20 June and 20 December (each such date a *Substitution Date*) during the period commencing on 20 December 2001 and continuing until (but excluding) the earlier of (i) 20 December 2005 and (ii) the date on which the

aggregate Credit Protection Amounts determined exceed 3% of the Initial Principal Balance (the *Substitution Period*), to the extent required pursuant to clause 5(h) of the Credit Default Swap (as described in "*Obligation to effect changes to the Reference Portfolio*" above), the Credit Default Swap Counterparty shall, without the consent of the Trustee but subject to confirmation from each of the Rating Agencies that the addition of such Reference Obligations will not result in a reduction or withdrawal of the then ratings of the outstanding Notes, substitute a new Reference Obligation for any Reference Obligation including Reference Obligations which have become Non-Eligible Reference Obligations provided that all the Substitution Conditions are met as of the relevant Substitution Date (the *Substitution*). Once a Credit Protection Amount with a value greater than zero has been determined pursuant to the Credit Default Swap, no further Substitution shall be effected unless the prior confirmation of the Rating Agencies has been obtained. The aggregate of the Reference Obligation Notional Amounts of the new Reference Obligations which are substituted on any Substitution Date shall not, (i) exceed the aggregate Reference Obligation Notional Amounts of the Reference Obligations and the Non-Eligible Reference Obligations being replaced or (ii) together with the aggregate Reference Obligation Notional Amounts of all Reference Obligations and Non-Eligible Reference Obligations previously substituted, exceed 10% of the Initial Principal Balance. The Substitution of a Reference Obligation for a Non-Eligible Reference Obligation shall take place either on the same Substitution Date on which such Non-Eligible Reference Obligation is removed from the Reference Portfolio or on one of the next two immediately following Substitution Dates.

On the Substitution Date on which a Reference Obligation is substituted for a Non-Eligible Reference Obligation or, failing any such Substitution, the second Substitution Date immediately following the Substitution Date on which such Non-Eligible Reference Obligation was removed from the Reference Portfolio, the Reference Obligation Notional Amount of such Non-Eligible Reference Obligation less the Reference Obligation Notional Amount of the Reference Obligation (if any) added by way of Substitution for such Non-Eligible Reference Obligation, shall be added to the Cancelled Amounts.

***Non-Eligible Reference Obligations:***

To the extent required pursuant to clause 5(h) of the Credit Default Swap (as described in "*Obligation to effect changes to the Reference Portfolio*" above) and subject to the Substitution Conditions, the Credit Default Swap Counterparty shall remove any Reference Obligation which has become a Non-Eligible Reference Obligation from the Reference Portfolio on the Substitution Date immediately following the date on which relevant Reference Obligation became a Non-Eligible Reference Obligation.

***Discharged Reference Obligation:***

On the Cash Settlement Date (as defined in the Credit Default Swap) on which a Credit Protection Amount in respect of a Reference Obligation falls to be included in the Cash Settlement Amount (each such Reference Obligation, a *Discharged Reference Obligation*), the Credit Default Swap Counterparty shall remove such Discharged Reference Obligation from the Reference Portfolio and the Reference Obligation Notional Amount of such Discharged Reference Obligation shall be added to the Cancelled Amounts. No new Reference Obligation may be added to the Reference Portfolio by way of Replenishment or Substitution of a Discharged Reference Obligation.

***Breach of Servicing  
Conditions or Concentration  
Thresholds:***

If the Servicing Conditions contained in clauses 5(d)(A)(i) to (iii) (inclusive) and clause 5(d)(B) of *Servicing Conditions* in the Credit Default Swap have been breached in respect of any Reference Obligation, no Cash Settlement Amount shall be payable in respect of such Reference Obligation. If the Servicing Condition contained in clause 5(d)(A)(iv) of the Credit Default Swap or the Concentration Thresholds have been breached, no Cash Settlement Amount shall be payable for so long as such breach continues but the Cash Settlement Amount in respect of any Reference Obligation shall be paid on the next following Cash Settlement Date on which no such breach is continuing.

***Collateral:***

On the Closing Date the proceeds of the Class C Notes will be utilised in acquiring an interest bearing Euro deposit of an equal amount to be held in the Cash Deposit Account. The Cash Deposit Account will bear interest payable quarterly on each Interest Payment Date which will be transferred to the Issuer Account. The Deposit Bank will be required to repay any amounts standing to the credit of the Cash Deposit Account to the Issuer to the extent necessary to enable the Issuer to make any payment due by it to the Credit Default Swap Counterparty under the Credit Default Swap after the occurrence of a Credit Event.

The proceeds of the Class A Notes and the Class B Notes will be applied by the Issuer to acquire IGBs at a price equal to 90% of the market price prevailing as at the date of purchase (the *IGB Purchase Price*) pursuant to the IGB Purchase Agreement concluded with IntesaBci S.p.A., London Branch in its capacity as IGB Purchase Counterparty. All IGBs acquired by the Issuer pursuant to and in accordance with the terms of the IGB Purchase Agreement and held by or on behalf of the Issuer at any time (the *IGB Portfolio*) shall have a remaining stated term to maturity of a maximum of ten years (ignoring any possible extension) as at the date of such acquisition by the Issuer. The market price of an IGB prevailing at the date it is acquired by the Issuer shall be referred to as the *IGB Market Price*. On the date upon which the Issuer receives any Late Recovery Payment or Estimated Late Recovery Payment, the Issuer shall acquire IGBs with an aggregate IGB Purchase Price equal to such amount of such receipt as is necessary to ensure that the aggregate IGB Purchase Price of the IGB Portfolio is equal to the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes (following the reinstatement of the Principal Amount Outstanding of such Notes pursuant to Condition 7.3). The balance, if any, of such receipt shall be deposited in the Cash Deposit Account. Upon the maturity of any IGBs held by the Issuer, the Issuer shall invest amounts received in respect of such maturing IGBs in acquiring replacement IGBs with an aggregate IGB Purchase Price equal to the aggregate IGB Purchase Price of the maturing IGBs. Any excess of the amount received in respect of the maturing or redeemed IGBs over the IGB Purchase Price relating to the replacement IGBs shall be paid by the Issuer to the Total Return Swap Counterparty. If the amounts received in respect of the maturing IGBs are less than the IGB Purchase Price relating to the replacement IGBs, the shortfall shall be paid by the Total Return Swap Counterparty to the Issuer (the *IGB Shortfall*). The IGBs will be held for the account of the Issuer by the Custodian pursuant to the Custody Agreement. Any receipt of a coupon in respect of the IGBs (the *IGB Coupon*) will be deposited in the Client Cash Account.

Pursuant to the Total Return Swap the IGB Coupon shall be paid to the Total Return Swap Counterparty within two Business Days of any such receipt by the Issuer. On each Total Return Swap Payment Date (as defined below) (which shall

correspond to the Fixed Rate Payment Dates), the Total Return Swap Counterparty will make a floating rate payment in Euro based on EURIBOR applied to a notional amount (which will correspond to 90% of the aggregate of the IGB Market Price of all IGBs held by the Issuer).

In the event that the Issuer is required on any Cash Settlement Date to make a payment under the Credit Default Swap and the Issuer Account Surplus and the Cash Deposit are insufficient to pay in full the Cash Settlement Amount (the balance being the *Net Required Payment*), the Issuer will be required to direct the Custodian to sell IGBs with an aggregate IGB Market Price equal to the product of (i) the aggregate IGB Market Price of the IGB Portfolio and (ii) the Net Required Payment divided by the then Principal Amount Outstanding of the Class A Notes and the Class B Notes. To the extent that the net proceeds of the sale of such IGBs (the *IGB Sale Proceeds*) exceed the Net Required Payment, the Issuer will pay such excess to the Total Return Swap Counterparty. To the extent that the IGB Sale Proceeds are less than the Net Required Payment, the Total Return Swap Counterparty shall pay such shortfall to the Issuer.

On each Fixed Rate Payment Date (as defined in the "*Description of the Credit Default Swap*") falling on or after 20 June 2006, the Fixed Rate Payer Notional Amount (as defined in the Credit Default Swap) will automatically be reduced in an amount equal to any Cancelled Amount (other than a Cash Settlement Amount) in respect of the immediately preceding Calculation Period provided and to the extent that the Aggregate Cancelled Amount exceeds the Amortisation Threshold. On each such date the Issuer will be required, pursuant to the provisions of Condition 3.1(c), to apply an amount equal to such Cancelled Amount in redemption of the Notes. Except to the extent that such redemption payment can be made by the Issuer from the Issuer Account Surplus (the balance being the *Net Required Redemption Payment*), the Issuer will forthwith direct the Custodian to sell IGBs with an aggregate IGB Market Price equal to the product of (i) the aggregate IGB Market Price of the IGB Portfolio and (ii) the Net Required Redemption Payment divided by the then notional amount of the Total Return Swap. To the extent that the proceeds of the sale of such IGBs (the *IGB Redemption Sale Proceeds*) exceed the Net Required Redemption Payment, the Issuer shall pay an amount equal to such excess to the Total Return Swap Counterparty. To the extent that the IGB Redemption Sale Proceeds are less than the Net Required Redemption Payment, the Total Return Swap Counterparty will pay an amount equal to such shortfall to the Issuer.

The Custodian shall be entitled to receive fees in respect of its acting as Custodian in accordance with the terms of the Custody Agreement.

***Additional Payments:***

Under the Total Return Swap, the Total Return Swap Counterparty will pay to the Issuer any additional amounts necessary to ensure that the Issuer can meet its administrative costs and other obligations in respect of fees and commissions, including without limitation, the commission to which each Note Placement Agent is entitled in accordance with the terms of the Note Placement Agreement and the costs of any arbitrator appointed under the Credit Default Swap. In the event that the Deposit Bank is downgraded and any replacement bank agrees to pay interest on the Cash Deposit at a margin below that paid by IntesaBci S.p.A., London Branch as Deposit Bank (see "*Risk Factors*"), the Total Return Swap Counterparty shall pay to the Issuer an amount on each Total Return Swap Payment Date equal to such margin with effect from the date of replacement as

applied to a notional amount (which will correspond to the amount of the Cash Deposit).

**Status of the Notes:**

The Notes will be direct, limited recourse obligations of the Issuer. The obligations of the Issuer with respect to the Class C Notes rank *pari passu* between themselves and are subordinate in payment priority to the obligations of the Issuer with respect to the Class B Notes and the Class A Notes. The Class B Notes rank *pari passu* between themselves and are subordinate in payment priority to the obligations of the Issuer with respect to the Class A Notes. The Class A Notes rank *pari passu* between themselves.

**Form and delivery of Notes:**

Each Class of Notes will initially be represented by a Temporary Global Note, in bearer form, without coupons or talons attached. Each such Temporary Global Note will be deposited with the Common Depositary on or about the Closing Date. Interests in each such Temporary Global Note will be exchangeable not earlier than 40 calendar days after the Closing Date for interests in a Permanent Global Note, provided that written certification of non-U.S. beneficial ownership by the relevant Noteholders has been received. On the exchange of interests in the Temporary Global Note in respect of a Class of Notes for interests in the Permanent Global Note in respect of such Class of Notes, such Permanent Global Note will be deposited with the Common Depositary.

Save in certain limited circumstances, Notes in definitive form (the *Definitive Notes*) will not be issued in exchange for Global Notes. For so long as Notes are represented by the Global Notes held by the Common Depositary, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg.

**Issuer Protection:**

None of the Trustee, the Note Placement Agents, the Paying Agents, the Bank, the Deposit Bank, the Corporate Officers Provider, the Corporate Administrator, the Credit Default Swap Counterparty, the Swap Guarantor, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian, the Noteholders or the Couponholders shall be entitled at any time to institute against the Issuer, or join in the institution against the Issuer of, any bankruptcy, reorganisation, arrangement, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations relating to the Notes, the Coupons, the Trust Deed, the Note Placement Agreement, the Paying Agency Agreement, the Deposit Agreement, the Banking Services Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Credit Default Swap, the Tripartite Agreement (as defined below), the Total Return Swap, the IGB Purchase Agreement or the Custody Agreement.

**Selling Restrictions:**

The Notes will be subject to certain selling restrictions set out under "*Subscription, Sale and Distribution*".

**Trustee:**

Bankers Trustee Company Limited.

**Principal Paying Agent:**

AIB International Financial Services Limited.

**Note Calculation Agent:**

Deutsche Bank AG London.

**ISIN Numbers:**

XS0128618930 for the Class A Notes, XS0128619078 for the Class B Notes and XS0128619318 for the Class C Notes.

## RISK FACTORS

An investment in the Notes involves certain risks. Prospective investors should carefully consider the following factors, in addition to the matters described elsewhere in this Information Memorandum and the terms of the Trust Deed, the Notes, the Credit Default Swap, the Tripartite Agreement, the Swap Guarantee, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement, the Deposit Assignment Agreement, the Deposit Agreement and the Note Placement Agreement (which are available for inspection as specified in this Information Memorandum), prior to making a decision to invest in the Notes.

***Credit Exposure to the Reference Obligations, Reference Entities and Relevant Airlines:*** As described in the Credit Default Swap, the Issuer will be required to make payments to the Credit Default Swap Counterparty under the Credit Default Swap as a result of the aggregate diminution in the value of certain Reference Obligations (including any related collateral) exceeding in aggregate the Threshold Amount following the occurrence of a Credit Event and the satisfaction of certain conditions in relation thereto (see “*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*” and “*Description of the Credit Default Swap*”). Any such payment will reduce on a *pro rata* and *pari passu* basis, first the Principal Amount Outstanding of the Class C Notes, then the Principal Amount Outstanding of the Class B Notes and finally the Principal Amount Outstanding of the Class A Notes, each to zero. Accordingly, the Issuer, as party to the Credit Default Swap, and therefore the Noteholders, will be exposed to the risk of a Credit Event occurring in respect of the Reference Obligations. Following the occurrence of a Credit Event with respect to a Reference Obligation and the satisfaction of certain conditions, the Issuer will be obligated under the Credit Default Swap to make a payment to the Credit Default Swap Counterparty (the ***Credit Protection Amount***).

The ability of each Relevant Airline to perform its obligations under the Relevant Lease Agreement will depend not only on management skills but also on general economic conditions in the country or region in which the Relevant Airline operates, as well as competition, fare levels, passenger and freight demand, jet fuel, labour and other operating costs. Relevant Airlines will be affected by local economic conditions. See Table 1 below for details of the current country concentration thresholds and Table 11 for the maximum permitted concentration by geographical region.

The concentration of credit exposure to certain Relevant Airlines (being BA, KLM, Alitalia, Air France, SAS, Air New Zealand and Iberia) exceeds 3% of the Initial Principal Balance. See Table 4 below for further details. If a Credit Event occurs in relation to the Reference Obligations related to or guaranteed by such a Relevant Airline, this may have a disproportionate effect on the Reference Portfolio and consequently on the Notes. The Reference Obligations are subject to credit, liquidity and interest rate risk.

***Credit Exposure to the Collateral:*** The proceeds of the Class A and the Class B Notes will be applied towards acquiring IGBs and the proceeds of the Class C Notes will be applied towards acquiring a Cash Deposit to be held with IntesaBci S.p.A., London Branch as Deposit Bank as described further below. The IGBs and the Cash Deposit will form part of the collateral in respect of each class of Notes. The Class C Notes cannot however be redeemed before the Class A Notes and the Class B Notes and the IGBs will be realised to meet repayments of principal falling due under the Class A Notes and the Class B Notes before the Cash Deposit is utilised in making such payments.

***Potential loss due to the method of calculation of the Credit Protection Amount:*** In relation to any Secured Obligation (as defined below) the Credit Protection Amount will be calculated by reference to amounts received following any realisation of the result of a sale of Relevant Aircraft Collateral and/or from a valuation of the Relevant Aircraft Collateral by three independent aircraft appraisers. For further details of the way in which the Credit Protection Amount is calculated see “*Description of the Credit Default Swap – Payment by the Credit Default Swap Counterparty*” below.

The Cash Settlement Amount payable by the Issuer may be affected by circumstances other than the relevant Credit Event. The value attributed to the Relevant Aircraft Collateral in accordance with the calculations referred to above or the value attributed to an Unsecured Obligation may be more or less than the amount actually recoverable by the underlying holder of such assets.

**Appraisals and realisable value of the Relevant Aircraft Collateral:** Three independent appraisal and consulting firms will provide desk-top appraisals of the Relevant Aircraft Collateral, including any Relevant Aircraft Collateral relating to a Reference Obligation added by way of substitution or replenishment, 12 months following the service of any Credit Event Notice or following a realisation of such Relevant Aircraft Collateral which does not comply with the Sales Criteria (as defined below). Such appraisals, which are based on the then Base Value of the Relevant Aircraft Collateral assuming half-life maintenance condition and average utilisation as specified in the instructions to the Aircraft Appraisers to be given pursuant to the Credit Default Swap, rely on varying assumptions and methodologies and may not reflect current market conditions that could affect the current market value of the Relevant Aircraft Collateral. Base Value is the theoretical value for an aircraft that assumes a unrestricted market with a balance of supply and demand, while current market value is the value for an aircraft in the actual market.

An appraisal is only an estimate of value and should not be relied upon as a measure of realisable value. Relevant Aircraft Collateral value, if the Servicer (or an agent bank acting on behalf of a syndicate of banks of which the Servicer may be one) repossesses and sells the Relevant Aircraft Collateral, will depend on many factors, including but not limited to market and economic conditions, supply and demand for that particular aircraft and aircraft generally, availability of buyers, and condition of the aircraft.

It may not be possible for Relevant Aircraft Collateral to be realised on favourable terms. The availability of commercial aircraft for sale or lease has periodically experienced cycles of oversupply and undersupply, producing sharp decreases and increases in aircraft values and lease rates. Among other factors not within the control of the Servicer that could influence the proceeds of realisation of Relevant Aircraft Collateral are:

- (i) prevailing interest rates and the availability of credit;
- (ii) the cost of aviation fuels and aircraft related materials, labour costs, costs associated with changing regulations and air traffic control constraints;
- (iii) aircraft manufacturer production and pricing levels;
- (iv) the cessation or announced cessation of production of a particular aircraft model;
- (v) the operating history of a particular aircraft and regulatory requirements (including noise regulations) affecting its operation and/or sale; and
- (vi) the development of newer, more technologically advanced aircraft or the introduction of more stringent noise or emissions regulations.

While the Relevant Aircraft Collateral relating to the Reference Obligations in the Reference Portfolio comprise a range of Relevant Aircraft including regional aircraft and narrowbody aircraft, a significant proportion of the Relevant Aircraft Collateral is related to widebody aircraft and the Boeing B747 family of aircraft in particular (see Table 5 below). Furthermore, the date of manufacture of Relevant Aircraft range from 1976 to 2000 (see Table 8 below). Reference Obligations may have high Loan-to-Value Ratios (as defined in the Credit Default Swap) (see Table 6 below) in respect of which even a small decline in the realisable value of the Relevant Aircraft Collateral could result in any realisation of the Relevant Aircraft Collateral falling short of the Secured Obligations.

**Unsecured Obligations are subject to, inter alia, credit, liquidity and interest rate risks:** The holder of Unsecured Obligations is exposed directly to the credit risk of the Reference Entity. It may be difficult for the holder of Unsecured Obligations to realise the same as there may be no, or only a limited, market. It may be difficult to dispose of illiquid Unsecured Obligations in a timely fashion and for a fair price, which could reduce the value of Reference Obligations and therefore increase the amount payable by the Issuer under the Credit Default Swap. Illiquid Unsecured Obligations may trade at a discount to comparable, more liquid investments. In addition, certain Unsecured Obligations may or may not be freely transferable under applicable securities laws or due to contractual restrictions on resale which might have an adverse effect on the market value of such Unsecured Obligations. In addition, the financial markets have from time to time experienced substantial fluctuations in prices for aircraft finance loans and loans to the aircraft industry and limited liquidity for such obligations. No assurance can be given

that the conditions giving rise to such price fluctuations and limited liquidity will not continue or become more acute following the Closing Date. The value of Unsecured Obligations may also fluctuate due to movements in interest rates.

**No Legal or Beneficial Interest in the Reference Obligations:** As a party to the Credit Default Swap, the Issuer has a contractual relationship with the Credit Default Swap Counterparty. The Issuer has no rights in or to any Reference Obligation or in or to any Relevant Aircraft Collateral, or against any Reference Entity. The entry into the Credit Default Swap by the Issuer does not constitute a purchase or other acquisition or assignment of any interest in any Reference Obligation or in or to any security interest in respect of any Reference Obligation. None of the Issuer, the Trustee, the Noteholders or any other entity has any right to acquire from the Credit Default Swap Counterparty (or to require the Credit Default Swap Counterparty to transfer, assign or otherwise dispose of) any interest in the Reference Obligations or any of them.

Neither the Issuer, MLI nor the Rating Agencies have undertaken any legal due diligence in respect of the Reference Portfolio including the terms of any Reference Obligation, Relevant Lease Agreement or Relevant Aircraft Collateral.

**Limited Provision of Information about Reference Entities:** None of the Issuer, the Trustee or the Noteholders will have the right to know the identities of the Reference Entities or, except as specifically required under the terms of the Credit Default Swap, to receive any information regarding any obligation of any Reference Entity. Other than in respect of the Servicing Conditions and Non-Eligible Reference Obligations (as described in "Description of the Credit Default Swap"), the Credit Default Swap Counterparty will have no obligation to keep the Issuer, the Trustee or the Noteholders informed as to the continued compliance of the Reference Portfolio with the Claim Eligibility Criteria, the Concentration Thresholds, the Replenishment Conditions or the Substitution Conditions or as to matters arising in relation to any Reference Entity or any such Reference Obligation, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event.

None of the Issuer, the Trustee or the Noteholders will have the right to inspect any records of the Credit Default Swap Counterparty which will be under no obligation to disclose any further information or evidence regarding the existence or terms of any Reference Obligation or other obligation of any Reference Entity or any matters arising in relation thereto or otherwise regarding any Reference Entity, any guarantor or any other person. The Credit Default Swap Counterparty will be required to keep such records in a secure location.

**Tenor:** Although the final maturity date of the Notes is 20 June 2019, the Notes will be subject to mandatory redemption (i) if the Credit Default Swap is terminated at the option of the Credit Default Swap Counterparty in accordance with its terms; (ii) at any time, upon the termination of either the Credit Default Swap or the Total Return Swap following the occurrence of certain Events of Default or Termination Events (see "Description of the Credit Default Swap" and "Description of the Total Return Swap" respectively); or (iii) if the Issuer is so instructed by an Extraordinary Resolution of certain specified Noteholders upon the occurrence of certain tax events described in Condition 3.4. The Notes may also be subject to mandatory partial redemption following an amortisation of the Reference Portfolio as set out in Condition 3.1(c) and the Class C Notes may be subject to mandatory redemption following default by the Deposit Bank as set out in Condition 3.1(d).

**Redemption:** The Credit Default Swap may be terminated by the Credit Default Swap Counterparty, at its sole discretion and with no additional cost, in whole but not in part and with 10 Business Days prior written notice provided, in the case of (i), (ii) and (iii) below, that notice has been given to terminate the Hedging Swap (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap): (i) on any Fixed Rate Payment Date in the event that the aggregate Reference Obligation Notional Amount of all outstanding Reference Obligations falls below 10% of the Initial Principal Balance; (ii) on any Fixed Rate Payment Date occurring on or after the third anniversary of the Closing Date, upon the occurrence of an Adverse Change; and (iii) on the Fixed Rate Payment Date falling on 20 June 2006 and 20 June 2013 or, in each case, on the next following Fixed Rate Payment Date; and (iv) if notice has been given to terminate the Hedging Swap in accordance with its terms for any reason whatsoever by either party thereto except where the Credit Default Swap is to be novated in accordance with the provisions of the Tripartite Agreement (see "Description of the Credit Default Swap"). Following any such termination, each Class of Notes will at that time be redeemed at its Principal Amount



Outstanding. The Issuer may also redeem all (but not some only) of the Notes at their Principal Amount Outstanding together with accrued interest, if instructed by an Extraordinary Resolution of certain specified Noteholders upon the occurrence of certain tax events described in Condition 3.4.

*Credit Exposure to the Total Return Swap Counterparty and the Swap Guarantor under the Total Return Swap:*

The proceeds of the Class A Notes and the Class B Notes will be applied by the Issuer to acquire IGBs at the IGB Purchase Price pursuant to the IGB Purchase Agreement concluded with IntesaBci S.p.A., London Branch (in its capacity as IGB Purchase Counterparty). As specified below, the aggregate IGB Market Price of the IGBs on purchase should be approximately 111% per cent of the Principal Amount Outstanding of the Class A Notes and the Class B Notes. The IGBs will be held for the account of the Issuer by the Custodian pursuant to the Custody Agreement, as further described in this Information Memorandum. Pursuant to the Total Return Swap entered into between the Issuer and MLI (in its capacity as Total Return Swap Counterparty), the IGB Coupon, if any, received shall be paid to the Total Return Swap Counterparty within two Business Days of receipt and on each Total Return Swap Payment Date the Total Return Swap Counterparty shall make a floating rate payment in Euro based on EURIBOR as applied to a notional amount (which will correspond to the aggregate IGB Purchase Price). On the date upon which the Issuer receives any Late Recovery Payment or Estimated Late Recovery Payment, the Issuer shall acquire IGBs with an aggregate IGB Purchase Price equal to such amount of such receipt as is necessary to ensure that the aggregate IGB Purchase Price of the IGB Portfolio is equal to the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes (following the reinstatement of the Principal Amount Outstanding of such Notes pursuant to Condition 7.3). The balance, if any, of such receipt shall be deposited in the Cash Deposit Account. Upon the maturity or redemption of any IGB held by the Issuer, the Issuer shall invest amounts received in respect of such maturing or redeemed IGBs in acquiring replacement IGBs with an aggregate IGB Purchase Price equal to the aggregate IGB Purchase Price of the maturing IGBs. Any excess funds following such purchase shall be paid by the Issuer to the Total Return Swap Counterparty. If such proceeds are insufficient to fund such acquisition, the shortfall shall be paid from the Total Return Swap Counterparty to the Issuer.

In the event that the government of the Republic of Italy defaults on its payment obligations under such IGBs, the Total Return Swap Counterparty shall remain obliged to meet its payment obligations under the Total Return Swap. The extent to which the Issuer has an exposure to the risk of loss in relation to the proceeds of the Class A Notes and the Class B Notes is accordingly determined by the creditworthiness of the Total Return Swap Counterparty and the Swap Guarantor (by virtue of the Swap Guarantee). If the Total Return Swap Counterparty has insufficient funds to pay (i) the floating rate payment due to the Issuer on each Total Return Swap Payment Date; (ii) the IGB Shortfall (if any) upon the maturity of an IGB; (iii) the amount by which the Net Required Payment exceeds the IGB Sale Proceeds; or (iv) the amount by which the Net Required Redemption Payment exceeds the IGB Redemption Sale Proceeds, or the Swap Guarantor has insufficient funds to meet amounts falling due under the Swap Guarantee in respect thereof, the Issuer may not have sufficient funds to meet its payment obligations under the Notes. Noteholders are, therefore, exposed to the risk of payment default by the Total Return Swap Counterparty.

To seek to reduce this risk, the following provision has been included: The Swap Guarantor currently has a short-term rating of A-1+ (in the case of S&P), and F1+ in the case of Fitch and a long-term rating of Aa3 (in the case of Moody's). If the Swap Guarantor's S&P short-term rating falls below A-1+, its Fitch short-term rating falls below F1+ or its Moody's long-term rating falls below Aa3 or any such rating is withdrawn, the Total Return Swap Counterparty will be obligated to (i) provide such collateral as may be required by the Rating Agencies to ensure that the then current ratings of the Notes are not withdrawn or reduced below their current levels or (ii) to transfer its obligations under the Total Return Swap to a counterparty who has the following ratings from the Rating Agencies: a short-term rating of at least A-1+ (in the case of S&P) and F1+ (in the case of Fitch) and a long-term rating of at least Aa3 (in the case of Moody's) or as otherwise acceptable to the Rating Agencies or (iii) obtain a guarantee in respect of its obligations from a third party having the following ratings from the Rating Agencies: a short-term rating of at least A-1+ (in the case of S&P) and F1+ (in the case of Fitch) and a long-term rating of at least Aa3 (in the case of Moody's) or as otherwise acceptable to the Rating Agencies.

If the sovereign credit rating of the Republic of Italy falls below AA- (in the case of S&P), AA- (in the case of Fitch) or Aa3 (in the case of Moody's) or any such rating is withdrawn, the IGB Portfolio shall be realised within five

Business Days and the net proceeds of the sale received by the Issuer in respect of such realised IGBs shall be invested in collateral acceptable to the Rating Agencies and the Trustee.

The Total Return Swap is a senior, unsecured and unsubordinated obligation of the Total Return Swap Counterparty and the Swap Guarantee is a senior, unsecured and unsubordinated obligation of the Swap Guarantor. Should the Total Return Swap Counterparty and/or the Swap Guarantor become insolvent, the Issuer would rank as an unsecured creditor in relation to amounts due from the Total Return Swap Counterparty under the Total Return Swap and/or the Swap Guarantor under the Swap Guarantee.

*Reliance on the Creditworthiness of the Swap Guarantor and of MLI in its capacity as Credit Default Swap Counterparty, of Deutsche Bank AG London, in its capacity as Custodian and of Allied Irish Banks p.l.c. in its capacity as Bank and of IntesaBci S.p.A., London Branch in its capacity as Deposit Bank:* The ability of the Issuer to meet its obligations under the Notes will be dependent in part on the receipt by it of payments due from the Credit Default Swap Counterparty under the Credit Default Swap on each Fixed Rate Payment Date (as further described in “Description of the Credit Default Swap – Payments by the Credit Default Swap Counterparty” below (such payments being guaranteed by the Swap Guarantor under the Swap Guarantee)), from the Custodian under the Custody Agreement, from the Deposit Bank under the Deposit Agreement and from the Bank under the Banking Services Agreement. To seek to reduce this risk the following provisions have been included:

- (i) The Swap Guarantor currently has an S&P short-term rating of A-1+, a Fitch short-term rating of F1+ and Moody’s long-term rating of Aa3. If the Swap Guarantor’s S&P short-term rating falls below A-1+, its Fitch short-term rating falls below F1+ or its Moody’s long-term rating falls below Aa3 or any such rating is withdrawn, then payments relating to each Calculation Period (as such term is defined in the Credit Default Swap) due from the Credit Default Swap Counterparty under the Credit Default Swap shall thereafter be made to the Issuer at the beginning of each Calculation Period instead of at the end and shall be deposited in the Issuer Account. Pursuant to a tripartite agreement entered into between the Issuer, the Credit Default Swap Counterparty and IntesaBci S.p.A., London Branch (the *Tripartite Agreement*), IntesaBci S.p.A., London Branch has the right to nominate itself or any other third party, subject to IntesaBci S.p.A., London Branch or such third party (as the case may be) then satisfying the criteria specified by the Rating Agencies, to assume all the obligations of the Credit Default Swap Counterparty under the Credit Default Swap in the event of a default by the Credit Default Swap Counterparty thereunder. In the event that IntesaBci S.p.A., London Branch or such nominated party assumes the obligations of the Credit Default Swap Counterparty pursuant to the Tripartite Agreement, the payments relating to each Calculation Period under the Credit Default Swap shall be made by IntesaBci S.p.A., London Branch or such nominated party to the Issuer at the beginning of each Calculation Period instead of at the end unless IntesaBci S.p.A., London Branch or such nominated party has a rating of at least A-1+, F1+ or Aa3 as described above. Provided that IntesaBci S.p.A., London Branch fulfils its obligations under the Tripartite Agreement, such failure by the Credit Default Swap Counterparty will not result in an early termination of the Credit Default Swap which would result in the automatic redemption of the Notes.

The Credit Default Swap is a senior, unsecured and unsubordinated obligation of the Credit Default Swap Counterparty. The obligations of the Credit Default Swap Counterparty have been unconditionally guaranteed by the Swap Guarantor. The Swap Guarantor’s senior unsecured long-term debt obligations are rated AA- by S&P, AA by Fitch and Aa3 by Moody’s. The Credit Default Swap Guarantor has ratings in respect of its short-term unsecured, unguaranteed and unsubordinated debt obligations of A-1+ from S&P, F1+ from Fitch and P-1 from Moody’s.

Notwithstanding the factors listed above, should the Credit Default Swap Counterparty and/or the Swap Guarantor become insolvent, neither the Issuer nor the Trustee would have any right to take possession of or to enforce the provisions of any Reference Obligations, and the Issuer would rank as an unsecured creditor in relation to amounts due from the Credit Default Swap Counterparty under the Credit Default Swap and from the Swap Guarantor under the Swap Guarantee.

- (ii) The Deposit Bank currently has an S&P short-term rating of A-1, a Fitch short-term rating of F1 and a Moody's short-term rating of P-1. If the Deposit Bank's S&P short-term rating falls below A-1, its Fitch short-term rating falls below F1 or its Moody's short-term rating falls below P-1 or any such rating is withdrawn, the Deposit Bank will be obliged to either (i) find a replacement bank (at its expense) to act as Deposit Bank under the Deposit Agreement or (ii) obtain a guarantee in respect of its obligations from a third party in either case with the following ratings from the Rating Agencies: an S&P short-term rating of at least A-1, a Fitch short-term rating of at least F1 and a Moody's short-term rating of at least P-1 or as otherwise acceptable to the Rating Agencies within five Business Days, failing which the Issuer shall be entitled to terminate the Deposit Agreement. In the event that such replacement bank agrees to pay interest at a margin below the rate payable by IntesaBci S.p.A., London Branch as Deposit Bank, the Total Return Swap Counterparty shall pay an amount on each Total Return Swap Payment Date equal to such margin with effect from the date of replacement, as applied to a notional amount (which will correspond to the amount of the Cash Deposit).

If the Deposit Bank is unable to find such a replacement within such period:

- (a) it shall apply the Cash Deposit in the purchase on behalf of the Issuer of Euro-denominated bonds issued by a G7 government entity having the following long-term ratings from the Rating Agencies: an S&P long-term rating of at least AA, a Fitch long-term rating of at least AA and a Moody's long-term rating of at least Aa2;
- (b) it shall find a bank (at its expense) with the following ratings from the Rating Agencies: an S&P short-term rating of at least A-1, a Fitch short-term rating of at least F1 and a Moody's short-term rating of at least P-1 or as otherwise acceptable to the Rating Agencies to enter into a hedging swap with the Issuer under which the Issuer will make fixed payments in Euro to such bank in amounts equal to the income receivable by the Issuer under such bonds and will receive floating rate payments in Euro from such bank at the rate which had been payable by the Deposit Bank under the Deposit Agreement, or, to the extent that such bank pays a lower rate of interest under such swap, the Deposit Bank has undertaken in the Deposit Agreement to pay the short fall to the Issuer; and
- (c) in the event that any term rating of the bank referred to in (b) subsequently falls below A-1 (in the case of S&P) or F1 (in the case of Fitch) or P-1 (in the case of Moody's), it shall find a replacement bank (at its expense) the following ratings from the Rating Agencies: an S&P short-term rating of at least A-1, a Fitch short-term rating of at least F1 and a Moody's short-term rating of at least P-1 or as otherwise acceptable to the Rating Agencies to replace the bank referred to in (b) above as the counterparty of the Issuer under such swap.

The bonds referred to in (a) above shall be held by the Custodian and charged or pledged in favour of the Trustee and all of the Issuer's rights, title, interest and benefit in, under and pursuant to the swaps referred to in (b) and (c) shall be assigned by way of first fixed security in favour of the Trustee, and all of such assets and rights will thereafter form part of the Charged Property.

The proceeds of the Class C Notes will be utilised in acquiring an interest bearing Euro deposit of an equal amount held in the Cash Deposit Account with IntesaBci S.p.A., London Branch in its capacity as Deposit Bank. If the Deposit Bank fails to pay any amount owing to the Issuer pursuant to the terms of the Deposit Agreement, then pursuant to Condition 3.1(d) the Principal Amount Outstanding of the Class C Notes shall, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Deposit Bank and/or where the amount is paid within two Business Days of the due date, be reduced in an amount equal to the Deposit Default Amount.

- (iii) The Custodian currently has a short-term rating of A-1+ (in the case of S&P), a short-term rating of F1+ (in the case of Fitch) and a long-term rating of Aa3 (in the case of Moody's). The IGBs are required to be held in a separate securities account at Monte Titoli by or on behalf of the Custodian. The Custodian is required if its short-term rating falls below A-1+ (in the case of S&P), its short-term rating falls below F1+ (in the case of Fitch) or its long-term rating falls below Aa3 (in the case of Moody's) or if so requested by the Issuer, at the

cost of the Issuer, to take all reasonable steps consistent with the rules of the clearance system to enable the IGBs or the segregated account in which they are held to be charged or pledged in favour of the Trustee. The Issuer will also have the right to terminate the appointment of the Custodian under the Custody Agreement upon 60 calendar days notice, or upon 14 calendar days notice if the Custodian fails to take the steps referred to above within 21 calendar days of being required so to do.

- (iv) The Bank currently has a short-term rating of A-1+ (in the case of S&P), a short-term rating of F1+ (in the case of Fitch) and a long-term rating of Aa3 (in the case of Moody's). If the Bank's S&P short-term rating falls below A-1+, its Fitch short-term rating falls below F1+ or its Moody's long-term rating falls below Aa3 or any such rating is withdrawn, the Bank will be obliged to find a replacement bank (at its expense) to act as Bank under the Banking Services Agreement with an S&P short-term rating of at least A-1+, a Fitch short-term rating of at least F1+ and a Moody's long-term rating of at least Aa3 respectively within five Business Days, failing which the Issuer, subject to the consent of the Trustee, shall be entitled to terminate the Banking Services Agreement. The termination of the Banking Services Agreement will take effect upon, *inter alia*, the appointment of a substitute bank by the Issuer, approved by the Trustee.

**Consideration by the Servicer of the Interests of the Issuer:** If and to the extent that the Servicer or any of its subsidiaries at any time owns or controls any Reference Obligations, the Servicer (or any of its subsidiaries, as the case may be) will exercise or enforce or refrain from exercising or enforcing any or all of its rights and powers arising under or in connection therewith or agree to or refuse amendments or waivers of the terms applicable to any such Reference Obligation in accordance with its ordinary business practices and as it sees fit. None of the Issuer, the Trustee, the Credit Default Swap Counterparty and the Noteholders has any right or power to compel the Servicer or any of its subsidiaries to take or refrain from taking any action in respect of any Reference Obligations that it might own or control. The Servicer may also be part of a syndicate in respect of any Reference Obligations it holds and may not therefore have control in respect of any such Reference Obligation. There is no obligation on the Servicer or any of its subsidiaries to retain all or any part of the Reference Obligations which it may, subject to the terms of such Reference Obligations, freely transfer to any other entity. There is no obligation on the part of the Credit Default Swap Counterparty or the Servicer or any of the Relevant Subsidiaries to own all or any part of, or have any legal or beneficial interest in, the Reference Obligations or have any economic risk in respect thereof.

**Replenishment and Substitution Rights:** As Reference Obligations are prepaid, repaid, amortised or cancelled, to the extent required pursuant to clause 5(h) of the Credit Default Swap, the Credit Default Swap Counterparty shall add new Reference Obligations to the Reference Portfolio subject to the satisfaction of the relevant Replenishment Conditions. To the extent required pursuant to clause 5(h) of the Credit Default Swap, the Credit Default Swap Counterparty shall substitute new Reference Obligations for Reference Obligations, including Reference Obligations which have become Non-Eligible Reference Obligations, subject to the satisfaction of the Substitution Conditions. If such Reference Obligations are replaced or substituted, there is no guarantee that future Reference Obligations, although required to meet the Replenishment Conditions or Substitution Conditions (as the case may be), will perform better than or as well as the initial Reference Obligations.

**No Guarantee of Secondary Market; Limited Liquidity:** There is currently no market for the Notes. Although the Note Placement Agents may make a market in the Notes, the Note Placement Agents are under no obligation to make a market in, or otherwise purchase, the Notes and, following the commencement of any market-making, may discontinue the same at any time. It is unlikely that a secondary market for any of the Notes will develop, or if a secondary market does develop, that it will provide the holders of such Notes with liquidity of investment or that it will continue for the life of the Notes. In addition, the Notes are subject to certain transfer restrictions and can only be transferred to certain transferees as described under "*Subscription, Sale and Distribution*". Consequently, an investor in the Notes must be prepared to hold the Notes until their maturity.

**Relative Ranking of Notes:** If the Issuer is required to make payments to the Credit Default Swap Counterparty under the Credit Default Swap, such amounts will be applied to reduce first the Principal Amount Outstanding of the Class C Notes. Only once the Principal Amount Outstanding of the Class C Notes is reduced to zero will such amounts be applied to reduce the Principal Amount Outstanding of the Class B Notes. Only once the Principal Amount

Outstanding of the Class B Notes is reduced to zero will such amounts be applied to reduce the Principal Amount Outstanding of the Class A Notes.

**Non-recourse Obligations:** The liability of the Issuer, upon any redemption or repayment of the Notes, to make the relevant payments in respect of the principal of and interest on the Notes and to make any payment due to the Trustee, any Paying Agent, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Custodian, the Credit Default Swap Counterparty, the Total Return Swap Counterparty or the IGB Purchase Counterparty may only be satisfied out of its interest in the Charged Property. Neither the Trustee nor the Noteholders shall have any other recourse in respect of such payments against the Issuer nor shall the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Custodian, the Credit Default Swap Counterparty, the Total Return Swap Counterparty or the IGB Purchase Counterparty have any other such recourse. If distributions on the Charged Property are insufficient to make payments on the Notes, no other assets will be available for payment of the deficiency and, following liquidation of all the Charged Property, the obligations of the Issuer to pay such deficiencies will be extinguished.

**Subordination of Notes to other Transaction Documents:** The obligations of the Issuer in relation to the Notes will be paid only after payment of all amounts then due and payable by the Issuer to the Trustee, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian under the Trust Deed, the Paying Agency Agreement, the Corporate Officers Agreement, the Corporate Administration Agreement, the Banking Services Agreement, the Credit Default Swap, the Total Return Swap, the IGB Purchase Agreement and the Custody Agreement.

**Credit Ratings:** Credit ratings of debt securities represent the Rating Agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and/or interest payments and do not evaluate the risks of fluctuations in market value. Accordingly, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

**Trustee's Actions:** Under the Trust Deed, the Trustee holds a security interest in and to the assets of the Issuer for the benefit of the Trustee, the Paying Agents, the Corporate Administrator, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian in priority to the Noteholders. Subject to the provisions of the Trust Deed relating to priority of payments, the Trustee will act in the interests of such parties as a whole, provided that if there is a conflict between the interests of any of the Noteholders and any of the other parties, the Trustee will act in the interests of the Noteholders and, if there is a conflict between the interests of the holders of different classes of Notes, in the interests of the holders of the most senior class of Notes.

**Description of the Transaction Documents:** The descriptions of the Notes, the Trust Deed, the Credit Default Swap, the Tripartite Agreement, the Swap Guarantee, the Custody Agreement, the Deposit Agreement, the Deposit Assignment Agreement, the Total Return Swap, the IGB Purchase Agreement and the Note Placement Agreement contained in this Information Memorandum are summaries only and Noteholders are bound by, and are deemed to have notice of, all the provisions of such documents.

**Operating History:** The Issuer is a newly organised entity and has no prior operating history. Accordingly, the Issuer has no performance history for a prospective investor to consider.

**Tax:** See the information set out under *The Republic of Ireland Taxation and United Kingdom Taxation*.

## USE OF PROCEEDS

The net proceeds of the issue of the Notes, estimated to be EUR173,600,000 will be used by the Issuer applying (i) EUR140,000,000 to acquire the IGBs to be held pursuant to the Custody Agreement and (ii) EUR33,600,000 to acquire the Cash Deposit to be held under the Deposit Agreement.

## The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics

### Summary of the Reference Portfolio

As of the Portfolio Composition Date, the Reference Portfolio consists of 125 Reference Obligations with an aggregate Reference Obligation Notional Amount of USD 1,009,456,000 (the *Initial Principal Balance*).

The Reference Obligations are debt obligations of the Reference Entities and are either loan facilities or Letters of Credit (as defined in the Credit Default Swap) entered into by the Reference Entities, such obligations having been originated, or acquired from the originator, by the Servicer or one of the subsidiaries of the Servicer (each a *Relevant Subsidiary* and together, the *Relevant Subsidiaries*). The Reference Entity in respect of any Reference Obligation is the direct obligor and, if the Reference Obligation is fully and unconditionally guaranteed by any Relevant Airline, the guarantor specified in accordance with the terms of the Credit Default Swap.

For the avoidance of doubt, the Reference Obligation Notional Amount may not correspond to the outstanding nominal amount held by the Servicer in respect of the underlying loan transaction. The Reference Obligation Notional Amount of a Reference Obligation shall not increase other than by way of Replenishment or Substitution.

Where the obligations of the Reference Entity are secured by any mortgage, charge, pledge, lien or other security interest securing any obligation of the Reference Entity in respect of such Reference Obligation or by any other agreement or arrangement having a similar effect (whether granted by such Reference Entity or otherwise), including, without limitation, any assignment or transfer of the interest of the Reference Entity in the Relevant Aircraft or the rights of the Reference Entity or any relevant party under any lease or loan agreement to which the Relevant Airline is a party (other than any agreement of sub-leasing by the Relevant Airline) (the *Relevant Lease Agreement*) or in respect of the issued share capital of any subsidiary of the Reference Entity (together, the *Relevant Aircraft Collateral*), such Reference Obligation is referred to as a *Secured Obligation*. Where the obligations of the Reference Entity under the Reference Obligation are unsecured, such Reference Obligation is referred to as an *Unsecured Obligation*.

Information in relation to the Reference Obligations forming part of the Initial Portfolio is set out in Tables 1 to 9 below. Each Reference Obligation forming part of the Initial Reference Portfolio meets the Claim Eligibility Criteria as at the Portfolio Composition Date and the Initial Reference Portfolio does not breach the Concentration Thresholds (as set out under “*Replenishment Conditions*” below).

### Summary of the Credit Approval Process of IntesaBci and its subsidiaries

IntesaBci’s credit approval process is based on a system of delegation, whereby IntesaBci’s board of directors – which has the widest powers of general business administration – establishes limits of authority for the approval of the credit facilities and the acceptance of lending risk. The parameters are applied to an established hierarchy, which consists (in descending order) of the executive committee, the credit committee (set up as a part of the management board), the individual managers and officers operating in IntesaBci’s head office, the branch managers and credit officers abroad.

The various decision-making levels operate according to strictly codified procedures, and their decisions are always put on record. Credit risk is assessed in all of its separate components: counterparty risk, country risk, market risk, legal risk, operational risk and tenor risk.

In general, no-risk can be accepted if the related credit line has not been approved for the customer. This principle applies to cash and non-cash loans, as well as to the credit risk arising from security and derivative transactions. Loan quality is also protected by the strict segregation of duties between the managers/officers proposing a loan and those approving or rejecting it. This differentiation of roles is repeated throughout the various levels of risk by establishing limits on the powers exercised by each individual official.

Borrower's background evaluation – for which specialised software is used – is essentially based on the customer's current and prospective financial situation. This is determined by financial accounts and business plans analyses, by the assessment of any guarantees offered, considering also the way in which the loan will be used, from the history of other relationships between the customer and IntesaBci and by reports from the national risk office. Recently internal credit rating systems were introduced, both for large corporate and mid-corporate customers. Credit relationships are usually reviewed annually.

Every risk position – accessible in real time via IntesaBci's data processing system – is monitored regularly by the official in charge of the exposure. On a weekly or monthly basis, the data processing system provides the loan disbursement and supervisory units with summary reports on customer accounts, which highlight any anomalous usage.

The control structure is mainly concentrated at the head office and includes several units whose responsibilities are as follows:

- (a) to examine credit applications that exceed the authority levels granted to branches, to monitor the performance of the related accounts and to administer restructured loans;
- (b) to review credit positions falling within the limits of authority granted to the branches, in order to monitor the relevant risks and to verify the compliance with the internal regulations concerning the granting of credit facilities and the acceptance of risk;
- (c) to study the performance of the credit portfolio as a whole, examining the short and long term components in terms of technical form, geographic area and category of business, partly in order to monitor the concentration of risk;
- (d) to supervise at IntesaBci and IntesaBci group level – a responsibility of IntesaBci's internal audit – the proper use of individual lines of credit, partly by verifying the compliance with internal regulations concerning the granting of credit facilities and the acceptance of risk;
- (e) to identify, monitor and administer – with amounts exceeding the authority levels granted to branches – the credit positions which, on examination, appear to be possible non-performing loans. Even for loans falling within the authority levels granted to the branches, the control function may decide to intervene in order to prevent/eliminate shortcomings or omissions.

The credit approval process of IntesaBci subsidiaries is similar to that described above. All the risk positions which exceed the limits determined for each subsidiary have to be submitted to IntesaBci for approval (through the so-called head office's "advisory opinion") and the credit risk will be reviewed in a similar manner to that described above.

#### **Summary of the Principal Types of Transaction forming part of the Initial Reference Portfolio**

The Initial Reference Portfolio is comprised of Secured Obligations and Unsecured Obligations. The Unsecured Obligations are unsecured loans to aircraft manufacturers, while the Secured Obligations are either direct loans to Relevant Airlines or tax based leveraged lease structures, secured in both cases by the Relevant Aircraft Collateral.

Tax based leveraged lease structures (with a few significant exceptions as set out below) broadly share the following characteristics:

The loan is typically made, not to the relevant airline, but to a lessor vehicle established for the purpose of purchasing the relevant aircraft and leasing it to the airline. The borrower will generally raise the majority of the aircraft cost by means of loans, with the remainder (usually called "equity") being provided either from its parent company or by one or more third party investors. The lender's recourse against the borrower is limited (save in exceptional circumstances such as borrower misconduct) to amounts actually received by the borrower, either under the lease to the airline or from the disposal proceeds of the leased aircraft. As security for the loan, the borrower (i) assigns to the lender, the relevant airline's obligations under the lease (excluding certain lease obligations intended to benefit only the borrower and/or the equity investors) and (ii) grants a mortgage over the aircraft itself. This means that a loan into a leveraged



lease will normally be viewed by the lender, for pricing and other purposes, as economically identical to a direct secured loan to the airline lessee.

Payments to be made under the lease by the lessee are normally in the form of periodic rents, various forms of termination payments and an end-of-term purchase option or residual guarantee payment. These payments are intended to be at least sufficient to discharge the debt. The lease will also contain customary indemnities for, amongst other things, increased costs and withholding taxes, as well as provisions negotiated (or at least approved) by the lender, dealing with issues such as insurance, maintenance and sub-leasing. These will be in similar terms to those which would be expected in a direct secured loan from the lender to the airline lessee. The lender and the lessee will generally enter into a "synthetic" interest rate swap with each other. The reason for this is that although under most tax-based leases, the relevant regulations do not allow or facilitate anything other than fixed payments under the lease (and therefore the loan), the lender and lessee usually prefer to have net floating-rate positions. The interest rate swap converts the initial fixed arrangements under the lease into net floating commitments for both parties. Where no such swap is concluded, the lender will arrange a suitable fixed-rate funding basis to support the fixed interest that it will receive under the lease.

Certain tax based leveraged lease structures have atypical characteristics as set out below.

(a) *Japanese Leveraged Leases (JLL)*

The borrower in a JLL is either a special purpose Japanese company or, occasionally, a consortium of special purpose companies owned by the Japanese leasing company(ies) which has assisted in arranging the transaction and is responsible for finding Japanese investors to provide the equity portion (generally 20-30%) of aircraft cost.

The borrower acts as the proprietor in a Tokumei-kumiai (TK) agreement with a number of passive Japanese investors, under which the taxable profits and tax-deductible losses associated with the lease are passed on to the Japanese investors. The TK agreement operates in contract only – the Japanese investors acquire no proprietary interest in the leased aircraft or in any of the lessor's associated rights – and thus it is generally considered that the rights of the other parties to a JLL (including the lenders) should not be adversely affected by the acts or omissions of the Japanese investors.

Further comfort is typically provided to the lenders (and to the lessee) by a guarantee letter of support or similar undertaking from the borrower's parent company in respect of the borrower's transaction obligations. The term of a JLL is generally 10 years in the case of a single aisle and 12 years in the case of a double aisle aircraft. The lessee pays periodic rents (normally six-monthly in arrears), which (to the extent related to the debt) are assigned to the lenders and are applied in paying corresponding amounts of principal and interest on the loan. At the expiry of the lease, the lessee has the option to purchase the leased aircraft for a fixed price, a portion of which represents the "balloon" payment remaining outstanding on the loan. If the lessee does not exercise its option, it has an obligation to make a "deficiency payment" of an identical amount.

(b) *Japanese Operating Leases (JOL)*

Following the cessation of the JLL market in March 1999 a new variant of the Japanese cross-border tax-based lease, the JOL, was developed. From the financier's standpoint, the risks are similar to those under a JLL, except that it is not always possible to require that the lessee has a full recourse obligation for amounts that will, in all instances, ensure full repayment of the relevant lease funding. However, in the absence of such "full-pay-out" obligations, lenders will typically take some other guarantee of repayment, such as residual value guarantees from the aircraft manufacturer, or a specialist insurer.

(c) *US Leveraged Leases*

The borrower under a US Leveraged Lease is normally a US trust company, acting on behalf of a US leasing company as part of a "grantor trust" arrangement. The cross-border versions of US Leveraged Leases of aircraft often have terms in excess of 20 years, while the terms of "domestic" versions are usually shorter, at

approximately 16 years. Loans into US Leveraged Leases are theoretically capable of continuing until the end of the lease terms.

In all of the cross-border US Leveraged Leases included in the Initial Reference Portfolio, the lessee has an early buy-out option (*EBO*), under which it is entitled to terminate the lease prior to the end of its term and purchase the leased aircraft for a fixed price that is sufficient to repay the outstanding loan at that time. Typically, the date on which such EBO can be exercised fall in the range 12 to 15 years from original inception of the lease (the *EBO Date*). Moreover, the transaction documents contain a provision entitling the lender, in the event that the EBO is not exercised, to either change the loan pricing to a level at which it is able to sell the loan at par on the EBO Date or to not re-quote at all for the post-EBO period, but instead require the loan to be re-financed or repaid on the EBO Date.

(d) *Ownership Foreign Sales Corporation Transactions (O-FSC Transactions)*

The characteristic which distinguishes O-FSC Transactions from other US Leveraged Leases, is that the lending and the asset ownership/leasing are required to be separated if the required US tax status is to be achieved.

Accordingly, the borrower and the lessor are not the same entity and the loan is provided to a special purpose affiliate of a major US leasing company, which uses the proceeds of the loan, together with its own equity, to capitalise a special purpose off-shore subsidiary with equity equal to 100% of the aircraft cost. The subsidiary then purchases the aircraft and leases it to the airline lessee.

The above arrangement maximises the taxable profit made by the lessor, since 30% of the off-shore income received from that subsidiary is exempt from US tax under the FSC (Foreign Sales Corporation) rules. In order to ensure that the loan is not treated as having been made directly to the lessor for US tax purposes (and thus eliminating most of the income in the off-shore subsidiary), the lender in an O-FSC Transaction does not have direct security over the leased aircraft, nor does it receive an assignment of the O-FSC Transaction lease payments due from the airline lessee. Instead the lender relies on: (i) the fact that both the borrower and the lessor are special purpose companies, prohibited from doing any other business or incurring other liabilities which may interrupt the flow of payments from the lessor to the borrower and from the borrower to the lender; (ii) an undertaking from a creditworthy entity within the borrower's group to the effect that payment flows from the lessor to the borrower and from the borrower to the lender will not be interrupted for any reason other than lessee default; (iii) charges over lessor and borrower bank accounts; (iv) a pledge from the borrower over its shares in the lessor; and (v) provisions which are considerably more restrictive in regulating transfers by the lessor than are customary in conventional US Leveraged Leases, so that the lender can be more assured that the lessor remains within a creditworthy group of companies.

Future financing structures may develop for a variety of different reasons including changes in the relevant taxation and regulatory environment. It is therefore possible that certain Reference Obligations, in particular those added by way of Substitution or Restructuring may not be structured in the same way.

**Claim Eligibility Criteria Relating to the Reference Portfolio**

The Reference Portfolio will have the following Claim Eligibility Criteria: No amount shall be payable in respect of any claim made by the Credit Default Swap Counterparty unless as at the Portfolio Composition Date or, in the case of a Reference Obligation added to the Reference Portfolio by way of Replenishment or Substitution, the relevant Replenishment Date or Substitution Date, the following criteria (the *Claim Eligibility Criteria*) have been met in respect of the Reference Obligation in respect of which the claim is made:

- (a) such Reference Obligation was originated, or acquired from the originator, by the Servicer or a Relevant Subsidiary in compliance with all applicable legal provisions and the credit and collection policies of the Servicer in effect at the time of such origination or acquisition and all required consents, approvals and authorizations had been obtained in respect thereof, and in respect of the ability of the Servicer and the Relevant Subsidiaries to undertake such business;

- (b) such Reference Obligation was, as at the effective date of creation of such obligation, legally valid and binding against the Reference Entity in accordance with its terms and applicable provisions of law;
- (c) such Reference Obligation constituted an unsubordinated, unconditional and irrevocable obligation of the Reference Entity and, other than by virtue of the limited recourse nature of such Reference Obligation, was not subject to any defence, dispute, counterclaim, right of set-off, or enforcement order (subsisting, or, to the knowledge of the Servicer or the Relevant Subsidiary, threatened or pending) which affected or might reasonably have been expected to affect materially and adversely the Reference Obligation or the Relevant Aircraft Collateral or the Servicer's or Relevant Subsidiary's ability fully, effectively and promptly to enforce the Reference Obligation or the Relevant Aircraft Collateral;
- (d) any Relevant Lease Agreement constituted, as at the effective date of such agreement, an unconditional, irrevocable and binding obligation of the Relevant Airline and, as at the Portfolio Composition Date, Replenishment Date or Substitution Date (as the case may be), was not subject to any defence, dispute, counterclaim or enforcement order (subsisting, or, to the knowledge of the Servicer or the Relevant Subsidiary, threatened or pending) which materially and adversely affected such agreement or the Relevant Aircraft Collateral or the Servicer's or the Relevant Subsidiary's ability fully, effectively and promptly to enforce the relevant Reference Obligation or Relevant Aircraft Collateral;
- (e) the Servicer or the Relevant Subsidiary had available to it all necessary documentation in respect of such Reference Obligation, Relevant Lease Agreement and Relevant Aircraft Collateral in accordance with standard market practice;
- (f) such Reference Obligation was a separate obligation of the Reference Entity and was not in any way dependent on any other loans made by the Servicer or the Relevant Subsidiary to the Reference Entity or any other third party;
- (g) the Reference Obligation was either (i) a loan or (ii) a Letter of Credit;
- (h) in respect of a Secured Obligation, such Reference Obligation was utilised to finance or refinance the acquisition of the Relevant Aircraft;
- (i) all requisite consents, authorisations, approvals and registrations had been effected to ensure that any Relevant Aircraft Collateral relating to such Reference Obligation was legal, valid and binding and enforceable by the Servicer or the Relevant Subsidiary;
- (j) the principal amount payable on such Reference Obligation (in the case of a loan) was determined by reference to a schedule of fixed amounts and was not subject to any contingency, and the interest on each Reference Obligation was either expressed as a fixed rate or as a floating rate computed on a benchmark interest rate plus or minus a spread, if any;
- (k) no Reference Entity was in breach of any of its payment obligations pursuant to such Reference Obligation;
- (l) no payment under such Reference Obligation or any Relevant Lease Agreement was overdue (having regard to any applicable grace period) and no payment had ever been overdue for more than 30 days (excluding any applicable grace period);
- (m) no litigation was pending with respect to any such Reference Obligation, Relevant Lease Agreement or any Relevant Aircraft Collateral nor, to the best knowledge of the Servicer or the Relevant Subsidiary, had any such litigation been threatened;
- (n) such Reference Obligation was denominated in the legal currency of a country having at such time a foreign currency debt rating from at least two of the Rating Agencies and, if so rated, of at least AA- in the case of S&P, AA- in the case of Fitch and Aa3 in the case of Moody's;

- (o) no judgment of insolvency, bankruptcy or moratorium of payment had been made in respect of either the Reference Entity or the Relevant Airline nor had the Reference Entity or the Relevant Airline instituted or had instituted against it proceedings seeking a judgment of bankruptcy, insolvency or moratorium of payments or any other similar proceedings nor had the Servicer or the Relevant Subsidiary commenced any action against a Reference Entity which could result in judgment of insolvency, bankruptcy or moratorium of payments;
- (p) such Reference Obligation and the Relevant Aircraft Collateral (if any) could be identified in the files of the Servicer or the Relevant Subsidiary on the basis of a list containing certain Reference Obligation data as agreed from time to time between the Trustee and the Credit Default Swap Counterparty (each such list, a *Portfolio List*), but at least consisting of a Reference Obligation identification number and the Reference Obligation Notional Amount, delivered to the Trustee and the Issuer by the Servicer;
- (q) the information provided in respect of such Reference Obligation and the Relevant Aircraft Collateral (if any) by the Servicer in this Information Memorandum delivered to the Trustee was true and accurate in all material respects and did not omit anything likely to affect the import of such information;
- (r) the Relevant Airline, if rated, did not have an external rating of below B- from S&P, B- from Fitch or B3 from Moody's;
- (s) either (i) the Relevant Airline was domiciled in a country that had a sovereign credit rating from at least two of the Rating Agencies, and, if so rated, of at least investment grade, or (ii) the Reference Entity had appropriate insurance (covering in full the relevant Reference Obligation Notional Amount), indemnities, guarantees or similar political risk cover against the risk of failure to enjoy continued undisturbed use of, and access to, the Relevant Aircraft due to political factors, such political risk cover being from an acceptable third party (including, without limitation, an export credit agency, insurance company or aircraft manufacturer) that had a credit rating from at least two of the Rating Agencies and, if so rated, of at least Investment Grade (as defined in the Credit Default Swap);
- (t) no agreement had been concluded or was being negotiated for such Reference Obligation according to which its repayment would be suspended;
- (u) neither the Servicer nor the Relevant Subsidiary had at any time commenced enforcement proceedings against the Reference Entity or Relevant Airline or in respect of the Relevant Aircraft Collateral;
- (v) neither the Servicer nor the Relevant Subsidiary nor any person Affiliated (as defined in the Credit Default Swap) with the Servicer or the Relevant Subsidiary had any obligation, direct or otherwise, in respect of the Reference Obligations owed by the Reference Entity or the Relevant Airline;
- (w) current appraisals of the Base Values for the Relevant Aircraft had been obtained from each of the Aircraft Appraisers (as such terms are defined in the Credit Default Swap);
- (x) the Loan to Value Ratio (as defined in the Credit Default Swap) of the Reference Obligation Notional Amount of such Reference Obligation does not exceed 100%;
- (y) each Relevant Lease Agreement contains a provision that the lessee's obligation to pay basic rent (however described in such lease) is absolute and unconditional, irrespective of any contingency and without set off or counterclaim; such provision being without any qualification, exclusion or exception; and
- (z) each Relevant Lease Agreement contains an obligation on the lessee to deliver the Relevant Aircraft to or to the order of the relevant lessor upon the early termination of the Relevant Lease Agreement save where such termination results from the destruction of the Relevant Aircraft or where the lessee exercises a right to acquire the Relevant Aircraft.

## INITIAL REFERENCE PORTFOLIO CHARACTERISTICS

*Table 1: Deemed Reference Obligation Domicile*

Country	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio	Number of Reference Obligations
<i>Europe (76.3%)</i>			
Belgium .....	4,107,948	0.4%	1
Eire .....	7,952,647	0.8%	4
France .....	89,823,458	8.9%	8
Germany .....	26,220,440	2.6%	2
Iceland .....	19,913,066	2.0%	3
Italy .....	97,048,338	9.6%	9
Netherlands .....	121,188,132	12.0%	18
Portugal .....	4,414,980	0.4%	1
Spain .....	32,199,874	3.2%	1
Sweden .....	79,363,375	7.9%	14
Switzerland .....	20,487,609	2.0%	6
UK .....	266,997,107	26.4%	28
<i>North America (10.6%)</i>			
USA .....	80,716,969	8.0%	10
Canada .....	26,434,624	2.6%	1
<i>Australasia (5.4%)</i>			
Australia .....	17,680,976	1.8%	6
New Zealand .....	36,947,651	3.7%	9
<i>Asia (7.7%)</i>			
China .....	30,000,000	3.0%	1
Hong Kong .....	25,092,289	2.5%	1
Malaysia .....	11,833,809	1.2%	1
United Arab Emirates .....	11,032,707	1.1%	1
<b>Total .....</b>	<b>1,009,456,000</b>	<b>100.0%</b>	<b>125</b>

Note: Deemed Reference Obligation Domicile has the meaning given to it in the Credit Default Swap.

**Table 2: Maturities of Reference Obligations**

Year of Maturity	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio	Number of Reference Obligations
2001 .....	2,477,166	0.2%	2
2002 .....	36,960,386	3.7%	4
2003 .....	88,881,682	8.8%	11
2004 .....	48,485,818	4.8%	6
2005 .....	104,817,192	10.4%	14
2006 .....	73,185,090	7.2%	17
2007 .....	90,569,120	9.0%	11
2008 .....	47,930,811	4.7%	5
2009 .....	176,589,937	17.5%	17
2010 .....	52,943,295	5.2%	7
2011 .....	140,691,361	13.9%	23
2012 .....	28,805,036	2.9%	1
2013 .....	-	0.0%	0
2014 .....	12,000,000	1.2%	1
2015 .....	105,119,106	10.2%	6
<b>Total .....</b>	<b>1,009,456,000</b>	<b>100.0%</b>	<b>125</b>

**Table 3: Reference Obligation Notional Amount of Reference Obligations**

Reference Obligation Notional Amount (USD)	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio	Number of Reference Obligations
1,000,000 - 10,000,000 .....	299,589,463	29.7%	85
10,000,000 - 20,000,000 .....	400,606,141	39.7%	28
20,000,000 - 30,000,000 .....	247,060,521	24.5%	10
30,000,000 - 40,000,000 .....	62,199,874	6.2%	2
<b>Total .....</b>	<b>1,009,456,000</b>	<b>100.0%</b>	<b>125</b>

**Table 4: Relevant Airline or Guarantor with a concentration exceeding 3%**

Relevant Airline or Guarantor	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio	Number of Reference Obligations
BA .....	224,641,307	22.3%	21
KLM .....	111,576,640	11.1%	16
Alitalia .....	97,048,338	9.6%	9
SAS .....	69,471,835	6.9%	14
Air France .....	60,073,458	6.0%	7
Air New Zealand .....	36,947,651	3.7%	9
Iberia .....	32,199,874	3.2%	1
<b>Total .....</b>	<b>631,959,103</b>	<b>62.6%</b>	<b>77</b>

Table 5: Exposure to Aircraft Categories

Aircraft Type	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio	Number of Aircraft
Regional .....	139,586,249	13.8%	29
Narrowbody .....	224,143,128	22.2%	69
Widebody .....	615,976,623	61.0%	55
<b>Total .....</b>	<b>979,706,000</b>	<b>97.1%</b>	<b>153</b>

Table 6: Distribution by Loan to Value

Loan To Value	Number of Reference Obligations	Percentage of Initial Reference Portfolio
20-30%.....	3	0.6%
30-40%.....	11	4.9%
40-50%.....	19	11.3%
50-60%.....	17	10.0%
60-70%.....	22	20.8%
70-80%.....	30	20.3%
80-90%.....	8	8.0%
90-100%.....	14	21.2%
>100% .....	0	0.0%
Unsecured Obligations .....	1	2.9%
<b>Total .....</b>	<b>125</b>	<b>100.0%</b>

Table 6 utilises the lower of the average or median of the Base Value appraisals for each Relevant Aircraft obtained from the Aircraft Appraisers (being, as at the Closing Date, Avitas, Airclaims and Aviation Specialists Group) as of December 2000, which appraisals have been adjusted to allow for a further period of depreciation since the date of the original appraisals.

Table 7: Exposure to Type of Aircraft and Manufacture

Aircraft Manufacturer	Aircraft Type	Aircraft Type	Engine Type	Number of Aircraft	Percentage of Initial Reference Portfolio	
Boeing	Boeing 747-400	Widebody	PW 4056, GE CF6, RB 211	17	23.3%	
	Boeing 747-400 Combi	Widebody	GE CF6	7	10.5%	
	Boeing 747-200	Widebody	RB 211	1	1.0%	
	Boeing 747-200 F / Combi	Widebody	GE CF6	4	0.7%	
	Boeing 777	Widebody	GE 90, Trent 892	12	13.6%	
	Boeing 767-300ER	Widebody	GE CF6	4	5.3%	
	Boeing 757-200	Narrowbody	RB 211	10	6.9%	
	Boeing 737-300/400/500	Narrowbody	CFM 56	19	5.6%	
	Boeing 737-Next Generation	Narrowbody	CFM 56	4	7.4%	
	Airbus	Airbus A330	Widebody	PW 4168	1	0.4%
		Airbus A340	Widebody	CFM 56	1	0.6%
		Airbus A310-300	Widebody	GE CF6	1	0.4%
	Saab	Saab 2000	Regional	AE 2100	5	0.5%
McDonnell Douglas	MD-11 Freighter / Combi	Widebody	GE CF6, PW 4462	2	1.0%	
	MD-11 Passenger	Widebody	GE CF6, PW 4462	5	4.2%	
	MD-90	Narrowbody	IAE V2500	6	1.0%	
	MD-80	Narrowbody	PW JT8D	30	1.3%	
ATR	ATR 72	Regional	PW 127	11	3.1%	
BAE Systems	RJ 85	Regional	AS 507	1	0.4%	
Embraer	ERJ 145	Regional	AE 3007	8	8.9%	
Bombardier	DHC Dash 8	Regional	PW150	4	1.0%	
<b>Total</b>				<b>153</b>	<b>97.1%</b>	



region shall, when expressed as a percentage of the Initial Principal Balance, not exceed the stated percentages appearing against such geographical region in Table 11 below.

*Table 11 Geographical Exposure*

Geographical Region	Maximum permitted concentration (%)
Europe .....	80
North America .....	50
Asia & Australasia .....	35
Emerging Europe.....	10
Emerging Americas .....	10
Emerging Asia .....	10
Africa/Middle East .....	10
Total Emerging Markets .....	15
<i>(being Emerging Europe, Emerging Americas, Emerging Asia and Africa/Middle East)</i>	

**Substitution Conditions**

Any Reference Obligation added to the Reference Portfolio by the Credit Default Swap Counterparty as a substitute for any Reference Obligation or Non-Eligible Reference Obligation on a Substitution Date during the Substitution Period, shall meet the following criteria on such Substitution Date (the *Substitution Conditions*):

- (a) the aggregate Reference Obligation Notional Amount of the new Reference Obligations which are to be substituted on any Substitution Date shall not (i) exceed the aggregate Reference Obligation Notional Amount of the Reference Obligations and Non-Eligible Reference Obligations being replaced, or (ii) together with the aggregate of the outstanding Reference Obligation Notional Amount of all Reference Obligations previously substituted for Reference Obligations and Non-Eligible Reference Obligations, exceed 10% of the Initial Principal Balance;
- (b) the Claim Eligibility Criteria shall be met;
- (c) the Substitution shall not result in the contravention of the Concentration Thresholds;
- (d) none of the Relevant Aircraft shall be a Prohibited Aircraft;
- (e) it shall be at least equal to or better than the Reference Obligation or Non-Eligible Reference Obligation it replaces in terms of credit quality or, if rated, credit rating (which shall in both instances be affirmed by the Rating Agencies);
- (f) the Loan to Value Ratio and the Portfolio Weighted Average Life (as such terms are defined in the Credit Default Swap) after such Substitution shall be at least equal to or lower than that prevailing prior to such Substitution (which shall be affirmed by the Rating Agencies); and
- (g) it shall be a Secured Obligation.

**Non-Eligible Reference Obligations**

Any Reference Obligation in respect of which:

- (i) a material amendment or variation relating to the Relevant Airline, the Reference Entity, the Relevant Aircraft Collateral and/or the Reference Obligation has been made and a Certification (as defined in the Credit Default

Swap) has been received by the Issuer and the Trustee from the Independent Auditor (as defined in the Credit Default Swap) that (i) having regard to the identity of the Reference Entity or Relevant Airline or the amendments to the Relevant Aircraft Collateral, the amended or varied Reference Obligation is materially less favourable to the Servicer or the Relevant Subsidiary than the original Reference Obligation or (ii) the amended or varied Reference Obligation has a higher Loan to Value Ratio than it had prior to such amendment or variation;

- (ii) an amendment or variation (other than an amendment or variation as contemplated under (i) above) has been made and, as a consequence of which, the inclusion of such amended or varied Reference Obligation in the Reference Portfolio would result in a breach of any of the Servicing Conditions or the Concentration Thresholds;
- (iii) a claim has been made and such claim failed to meet the Conditions to Payment on the grounds that either (a) the Claim Eligibility Criteria, the Replenishment Conditions or the Substitution Conditions (as the case may be), or (b) the Servicing Conditions have not been met;
- (iv) a Credit Event has occurred and the relevant Credit Event Notice has not been given in writing by the Servicer to the Issuer within 180 calendar days after the date on which the Servicer or the Relevant Subsidiary became aware of the occurrence of the relevant Credit Event;
- (v) being an Extended Reference Obligation (as defined in "*Description of the Credit Default Swap*" below), (a) the extended maturity date falls later than 20 June 2018 or (b) the extended maturity date is on or earlier than 20 June 2018 and the Servicing Conditions are no longer met;
- (vi) the Reference Obligation Servicing Conditions (as defined below) are no longer met; or
- (vii) the Rating Agencies and the Trustee have agreed that the Credit Default Swap Counterparty may replace such Reference Obligation with a new Reference Obligation so as to remedy any breach of the Concentration Thresholds that would otherwise occur without such substitution,

shall be referred to as a *Non-Eligible Reference Obligation*.

To the extent required pursuant to clause 5(h) of the Credit Default Swap and subject to the Substitution Conditions, the Credit Default Swap Counterparty shall remove any Reference Obligation which has become a Non-Eligible Reference Obligation from the Reference Portfolio on the Substitution Date immediately following the date on which such relevant Reference Obligation became a Non-Eligible Reference Obligation. On the Substitution Date on which a Reference Obligation is substituted for a Non-Eligible Reference Obligation or, failing any such Substitution, the second Substitution Date immediately following the Substitution Date on which such Non-Eligible Reference Obligation was removed from the Reference Portfolio, the Reference Obligation Notional Amount of such Non-Eligible Reference Obligation less the Reference Obligation Notional Amount of the Reference Obligation (if any) added by way of Substitution for such Non-Eligible Reference Obligation, shall be added to the Cancelled Amounts.

#### ***Discharged Reference Obligations***

The Credit Default Swap Counterparty shall remove any Discharged Reference Obligation on the Cash Settlement Date on which the Credit Protection Amount in respect of such Discharged Reference Obligation is paid. The Reference Obligation Notional Amount of such Discharged Reference Obligation shall be added to the Cancelled Amounts.

#### ***Servicing Conditions***

- (a) The Servicer shall ensure that each Reference Obligation forming part of the Reference Portfolio shall meet the following criteria as at the date it was added to the Reference Portfolio and shall continue to meet such criteria for so long as it forms part of the Reference Portfolio (the *Reference Obligation Servicing Conditions*):

Table 8: Year of Manufacture

Year of Manufacture	Number of Aircraft	Percentage of Initial Reference Portfolio
1976.....	1	0.2%
1977.....	2	0.3%
1978.....	0	0.0%
1979.....	1	0.2%
1980.....	0	0.0%
1981.....	1	1.0%
1982.....	0	0.0%
1983.....	0	0.0%
1984.....	0	0.0%
1985.....	6	1.3%
1986.....	5	0.0%
1987.....	2	0.0%
1988.....	6	0.3%
1989.....	7	3.8%
1990.....	9	7.5%
1991.....	14	9.5%
1992.....	7	1.9%
1993.....	4	4.3%
1994.....	19	7.9%
1995.....	11	6.3%
1996.....	9	4.8%
1997.....	12	10.1%
1998.....	16	13.4%
1999.....	9	10.8%
2000.....	11	12.4%
2001.....	1	1.2%
<b>Total .....</b>	<b>153</b>	<b>97.1%</b>

Table 9: Aircraft Financing Structures

Structure	Number of Reference Obligations	Aggregate Reference Obligation Notional Amount (USD)	Percentage of Initial Reference Portfolio
JLL.....	54	321,978,595	31.9%
JOL.....	17	125,170,685	12.4%
USLL.....	20	121,545,770	12.0%
OFSC.....	7	128,748,873	12.8%
Other Leases.....	8	69,499,046	6.9%
Direct Loans.....	17	194,508,719	19.3%
Letter of Credit.....	1	18,254,311	1.8%
Unsecured Loans.....	1	29,750,000	2.9%
<b>Total.....</b>	<b>125</b>	<b>1,009,456,000</b>	<b>100.0%</b>

**Replenishment Conditions**

Any Reference Obligation added to the Reference Portfolio by the Credit Default Swap Counterparty on a Replenishment Date during the Replenishment Period shall meet the following criteria on such Replenishment Date (the *Replenishment Conditions*):

- (a) the aggregate Reference Obligation Notional Amounts of all the Reference Obligations which are to be added to the Reference Portfolio on such Replenishment Date (but excluding the aggregate Reference Obligation Notional Amount of new Reference Obligations being added to the Reference Portfolio by way of Substitution) shall not at any time (a) exceed the Unused Capacity less the aggregate of all Cancelled Amounts or, (b) result in the Aggregate Coverage Amount exceeding the Maximum Portfolio Amount;
- (b) the Claim Eligibility Criteria must be met;
- (c) the addition of such Reference Obligation shall not result in the credit ratings ascribed to the Notes by the Rating Agencies prior to such intended Replenishment being downgraded, suspended, withdrawn or placed on credit watch with negative implications;
- (d) none of the Relevant Aircraft shall be one of the prohibited aircraft set out in the Credit Default Swap (the *Prohibited Aircraft*); and
- (e) the addition of such Reference Obligation shall not result in the following concentration thresholds being breached:
  - (i) the aggregate of the Reference Obligation Notional Amounts (converted into US Dollars at the Relevant Fixed Exchange Rate) of Reference Obligations referred to or guaranteed by any Relevant Airline shall not exceed the stated percentage of the Initial Principal Balance appearing against such airline in Table 10 below, or if no such percentage so appears, 3%;

*Table 10 Maximum concentration of exposure to Relevant Airlines*

Relevant Airline	Maximum Permitted Percentage (%)
BA.....	22.26
KLM .....	11.05
Alitalia .....	9.62
SAS.....	6.89
Air France.....	5.96
Air New Zealand .....	3.67
Iberia.....	3.20

- (ii) the Portfolio Loan to Value Ratio is no more than the Maximum Portfolio Loan to Value Ratio (as such terms are defined in the Credit Default Swap);
- (iii) the aggregate Reference Obligation Notional Amounts of all Reference Obligations relating to Wide Body Aircraft (as such term is defined in the Credit Default Swap) shall not exceed 70% of the Initial Principal Balance;
- (iv) the aggregate Reference Obligation Notional Amounts of all Reference Obligations relating to Relevant Airlines domiciled in Emerging Markets (as such term is defined in the Credit Default Swap) shall not exceed 15% of the Initial Principal Balance; and
- (v) the aggregate Reference Obligation Notional Amounts of Reference Obligations with a Reference Obligation Domicile (as such term is defined in the Credit Default Swap) within a given geographical

- (i) such Reference Obligation or the Relevant Lease Agreement (if any) requires the Relevant Airline to operate the Relevant Aircraft (if any) in accordance with all applicable laws and regulations. In cases where the Relevant Airline subleases the Relevant Aircraft to another airline, the Relevant Airline shall remain liable for all lease payments due under the Relevant Lease Agreement and for procuring and maintaining satisfactory and appropriate insurance (covering in full the relevant Reference Obligation Notional Amount) and maintenance for the Relevant Aircraft;
  - (ii) such Reference Obligation or the Relevant Lease Agreement (if any):
    - (A) imposes normal operational requirements in respect of maintenance of the Relevant Aircraft designed to provide that (a) such Relevant Aircraft meets applicable airworthiness and other regulatory requirements in the jurisdiction in which the Relevant Aircraft is registered and, where different, the domicile of the Relevant Airline and (b) the Relevant Aircraft complies with airworthiness directives of the applicable aviation authorities and with the aircraft manufacturer's mandatory service bulletins; and
    - (B) provides that any appropriate insurance (covering in full the relevant Reference Obligation Notional Amount), indemnities, guarantees or similar potential risk cover contemplated in clause (s) of the Claim Eligibility Criteria, is to be maintained for the term of such Reference Obligation or Relevant Lease Agreement (as the case may be);
  - (iii) either (i) the final maturity of such Reference Obligation or (ii) the date of exercise of any option of the Servicer or the Relevant Subsidiary (as the case may be) to require the pre-payment of the Reference Obligation, falls on or before the last day of the Calculation Period immediately preceding the final Calculation Period; and
  - (iv) the Portfolio Weighted Average Life shall not exceed 8 years from the Closing Date.
- (b) In respect of any Secured Obligation in respect of which a Credit Event Notice has been served prior to the end of the Notice Delivery Period (as defined in the Credit Default Swap) (a *Defaulted Reference Obligation*), the holder of the Reference Obligation (i) shall have taken all necessary steps to enforce its rights under the Relevant Aircraft Collateral (including service of a written notice expressing its intention to enforce such rights) and to dispose of the Relevant Aircraft and where it has commenced but not finalised the legal process of enforcing its rights under the Relevant Aircraft Collateral, the validity thereof cannot reasonably be legally challenged by the Relevant Airline or any third party, or (ii) has an unconditional right to dispose of the Relevant Aircraft (the *Defaulted Reference Obligation Servicing Conditions* and, together, with the Reference Obligation Servicing Conditions, the *Servicing Conditions*).

***Obligation of Credit Default Swap Counterparty to effect any Replenishment, Substitution, removal of a Non-Eligible Reference Obligation or to cancel any Unused Capacity***

The Hedging Swap has been concluded on terms substantially similar to the Credit Default Swap. The Hedging Swap contains provisions which, save for the references to the parties therein, are identical to the Claim Eligibility Criteria, the Replenishment Conditions, the Substitution Conditions, the Concentration Thresholds, the Servicing Conditions and the clauses in the Credit Default Swap relating to the removal of any Non-Eligible Reference Obligation and the cancellation of Unused Capacity. The Hedging Swap Reference Portfolio will be identical in all respects to the Initial Reference Portfolio. To ensure that the Reference Portfolio reflects any changes made to the Hedging Swap Reference Portfolio by the Hedging Swap Protection Buyer, the Credit Default Swap Counterparty shall, under the terms of the Credit Default Swap, be obliged to and may only effect any Replenishment, Substitution, removal of a Non-Eligible Reference Obligation or cancellation of Unused Capacity if and to the extent that the Hedging Swap Protection Buyer effects such a change to the Hedging Swap Reference Portfolio thereunder (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap). The Hedging Swap Protection Buyer shall, however, obtain the prior consent of the Credit Default Swap Counterparty to any addition to the Hedging Swap Reference Portfolio by way of Replenishment or Substitution of

(i) a Reference Obligation relating to a Reference Airline domiciled in an Emerging Market that does not have an Investment Grade rating from at least one of the Rating Agencies, or (ii) a Reference Obligation which is a Letter of Credit. The prior consent of the Credit Default Swap Counterparty to any Replenishment or Substitution shall also be required if the aggregate Reference Obligation Notional Amount of Discharged Reference Obligations exceeds 23% of the Initial Principal Balance.

***Breach of Servicing Conditions or Concentration Thresholds***

If any of the Servicing Conditions contained in clauses (a)(i) to (iii) (inclusive) and clause (b) of the *Servicing Conditions* above have been breached in respect of any Reference Obligation, no Cash Settlement Amount shall be payable in respect of such Reference Obligation. If the Servicing Condition contained in clause (a)(iv) or the Concentration Thresholds have been breached, no Cash Settlement Amount shall be payable for so long as such breach continues, but the Cash Settlement Amount in respect of any Reference Obligation shall be paid on the next following Cash Settlement Date on which no such breach is continuing.

## DESCRIPTION OF BANCA INTESA BANCA COMMERCIALE ITALIANA S.P.A.

### General

#### Introduction

Since 1 May, 2001 the merger by incorporation of Banca Commerciale Italiana S.p.A. (*BCI*) into Banca Intesa S.p.A. (*Intesa*) has been effective, leading to the largest Italian bank named Banca Intesa Banca Commerciale Italiana S.p.A. (*IntesaBci*), a company incorporated under the laws of Italy and listed on the Milan Stock Exchange. The banking group resulting from the merger is referred to as *IntesaBci Group*.

#### Description of BCI

##### General

BCI was established in Milan in 1894, partly with German, Austrian and Swiss capital. Within a short time, it became an important member of the Italian banking system while simultaneously extending its presence abroad. In 1910, together with two French banks, BCI set up Banque Française et Italienne pour l'Amerique du Sud, now known as Banque Sudameris S.A. (*Banque Sudameris*) (of which IntesaBci now owns 99.9%). In 1911, BCI opened its first foreign branch in London, subsequently opening in New York in 1918. In the following decade, BCI extended its presence abroad by establishing affiliated banks in Bulgaria, Hungary, Romania and Poland.

Until the early 1930s, BCI also operated as an investment bank, acquiring participations in industrial companies. In 1933, control over BCI was transferred to Istituto per la Ricostruzione Industriale (IRI) S.p.A., a joint stock company wholly owned by the Ministry of Treasury of the Republic of Italy (*IRI*). In 1936, with the introduction of the Banking Law, BCI became an "ordinary credit institution", taking deposits and granting loans essentially for periods of less than 18 months. In 1937, together with Banco di Roma and Credito Italiano, BCI was designated a "Bank of National Interest," as all three were joint-stock companies with branches in at least thirty Italian provinces. In 1993, following Italy's adoption of the EC's Second Banking Directive, this designation as well as banks' specialisation based on pre-imposed restrictions on the range of operations that could be carried out and their maturity were abolished.

After the Second World War, BCI together with Banco di Roma and Credito Italiano established Mediobanca-Banca di Credito Finanziario S.p.A. (*Mediobanca*), a leading Italian investment bank; in June 2000 BCI disposed of its 8.8% interest in Mediobanca. In the 1960s, BCI accelerated the expansion of its overseas network and, in Italy, acquired control of Banco di Chiavari e della Riviera Ligure S.p.A. (*Banco di Chiavari* of which IntesaBci currently owns 69.62%) and *Banca di Legnano* S.p.A. (*Banca di Legnano*, of which IntesaBci currently owns 55%); in December 2000 the Board of Directors approved the sale of its whole shareholding in Banca di Legnano, which should be finalised in 2001. In the early 1980's, BCI established Banca Commerciale Italiana of Canada Ltd. (*BCI Canada*) and Banca Commerciale Italiana (Suisse) (*BCI Suisse*), both wholly owned, and acquired full control of Société Européenne de Banque S.A. (Luxembourg) (*SEB*).

In 1994, IRI sold its controlling interest in BCI as part of the Italian Government's privatisation programme.

By the end of 1998, BCI became the controlling shareholder of the following financial institutions: (i) Cassa di Risparmio di Biella e Vercelli (*Biverbanca*), GenerComit Gestione and GenerComit Distribuzione S.I.M. in the domestic market; (ii) Banco America do Sul, Sao Paulo, in the Latin America market and (iii) Central-European International Bank, Budapest, in the East-European market.

In 1999, BCI acquired the controlling interest in Banco Wiese Ltd., the number two Peruvian bank, through its Peruvian subsidiary Banco de Lima Sudameris.

In 2000, BCI acquired 66.3% of Privredna Banka Zagreb (PBZ) in Croatia and completed through Banque Sudameris – the purchase of Argentine savings bank Banco Caja de Ahorro, merged then with Banco Sudameris Argentina.

As of 31 December, 2000 BCI – at the consolidated level – had total assets of Lire 280,719 billion (Lire 247,761 billion as of 31 December, 1999), loans to customers of Lire 153,072 billion (127,290 billion as of 31 December, 1999) and funding from customers of Lire 147,274 billion (122,057 billion as of 31 December, 1999). At such date, BCI itself accounted for approximately 77% of the consolidated assets. As of 31 December, 2000, BCI's consolidated network included 1,147 branches in Italy and 883 branches and 27 representative offices in 42 foreign countries (as of 31 December, 1999, the network was comprised of 1,154 branches in Italy and 940 branches and 27 representative offices in 42 foreign countries).

### **Domestic Commercial Banking**

*The Network:* BCI's domestic commercial banking activities have been principally carried out by BCI itself, Banco di Chiavari, Biverbanca and Banca di Legnano (which, as set out above, is to be disposed of).

The Italian market share of BCI itself and its three Italian banking subsidiaries in 2000 was 5.2% of loans to domestic customers and 4.5% of domestic customers' deposits (including bonds issued and reverse repurchase agreements).

*Corporate Banking:* BCI has provided a full range of corporate banking services, investment banking and other financial services to Italian companies, foreign corporations operating in Italy and Italian public sector entities. Corporate banking services provided included the acceptance of deposits, overdraft facilities, bills and receivables discounting, export/import financing, advances on contracts and invoices, medium and long term loans, leasing, foreign exchange spot and forward transactions and money market instruments, cash management and payroll and other electronic payment systems.

BCI has been one of the major players in Italian corporate banking. At 31 December, 2000, corporate loans represented approximately 85% of the total loans of BCI itself and deposits of corporate customers represented approximately 40% of its total deposits. BCI had nearly 235,000 corporate customers when its three regional banks were also taken into account.

*Retail Banking:* BCI has provided a full range of banking services to its retail customers, including chequing and savings accounts, certificates of deposit, consumer loans, overdraft facilities, mortgage loans, credit cards, utility bills payment and automated banking services (ATMs and POSs). In addition, BCI and its Italian banking and financial subsidiaries have offered a whole range of investment banking operations, including securities advisory, brokerage, custody and administration services, several types of mutual funds, management of individual fiduciary accounts and insurance products and annuities.

BCI has been one of Italy's significant institutions in retail banking. At 31 December, 2000, retail loans represented approximately 15% of the total loans of BCI itself and were principally composed of overdraft facilities, mortgage loans and consumer loans. At the same date, deposits from retail customers represented approximately 60% of its total customers' deposits.

BCI had nearly 3.4 million retail customers when its three regional banks are also taken into account.

Italy's retail banking market has a large proportion of customer funds invested in securities, fiduciary security accounts and mutual funds, rather than in bank deposits. As BCI has traditionally been a major intermediary in the Italian securities market, the volume of securities held in custody as of 31 December, 2000 amounted to Lire 298,195 billion.

### **International Commercial Banking**

BCI has conducted its international operations through a variety of units, including direct foreign branches, representative offices, majority owned subsidiaries and affiliated or associated companies, depending on the characteristics of each individual foreign market and the type of activities BCI has intended to conduct. As of 31



December, 2000 BCI operated through 14 foreign branches or agencies located in China, Germany, Grand Cayman, Japan, Singapore, Spain, the United Arab Emirates, the United Kingdom and the United States and 19 representative offices located in Argentina, Australia, Belgium, China, the Czech Republic, Egypt, Greece, India, Iran, Lebanon, Mexico, the Netherlands, Poland, Portugal, Russia, South Korea, Taiwan, Turkey and Venezuela.

BCI has also operated abroad through its wholly owned subsidiaries, the most important of which is Banque Sudameris, a Paris-based bank holding company, which as of 31 December, 2000 operated a network of 659 branches (including the branches of its subsidiaries) in 12 countries (Argentina, Brazil, Colombia, France, Chile, Grand Cayman, Paraguay, Panama, Peru, the Principality of Monaco, Uruguay and the United States) and 6 representative offices (located in Colombia, Germany, Japan, Peru, Spain and the United States).

In addition, as of 31 December 2000, BCI owned 66.3% of Privredna Banka Zagreb, which operates 149 branches in Croatia, active in both retail and corporate banking; Central-European International Bank, which operates 42 branches in Hungary, specialising in financial services to corporate customers; BCI Suisse, which operates 3 branches in Switzerland, mainly active in the field of private banking, financial consulting and brokerage; Banca Commerciale Italiana (France) S.A., which operates one branch in Paris and focuses on corporate banking and financial services relating to Italian-French trade; BCI Canada, which operates 13 branches in Canada, specialising in commercial banking with both mid-sized corporate and retail customers; SEB, which operates one branch in Luxembourg and focuses on private banking and the management of holdings for Italian and international customers; Banca Commerciale Italiana (Ireland) and Comit Investments (Ireland), which provide financial services, including securitisation of trade receivables on behalf of major international customers.

#### **Asset Management**

BCI has been one of Italy's leaders in asset management services, providing a wide range of diversified investments. The asset management activity has been carried out by BCI itself and by other subsidiaries both in Italy and abroad, among which the most significant is Comit Asset Management S.G.R., formerly named GenerComit Gestione.

As of 31 December, 2000, the total assets managed amounted to over Lire 94,000 billion, net of Lire 21,000 billion invested in intercompany funds through banc-assurance activities and individual portfolio management.

#### **Insurance**

BCI has operated in the field of life insurance through AssiBa-Società di Assicurazioni S.p.A. (*AssiBa*), which has been a joint venture between BCI (50%) and Assicurazioni Generali S.p.A. (50%). In the 2000 financial year, AssiBa collected premiums for over Lire 2,570 billion and administered a number of around 370,000 policies.

#### **Domestic and International Investment Banking**

BCI's domestic and international investment banking activities have included securities underwriting, market-making and brokerage, credit derivatives, derivatives trading activity, loan syndication, corporate finance advisory services and merchant banking. These activities have benefited from the origination and placement capability of BCI's worldwide network of offices and have been primarily conducted by the Head Office and some selected domestic and international subsidiaries.

BCI has been one of the largest underwriters and market-makers in Italian Government securities and is a primary dealer in such securities (*Mercato Telematico dei Titoli di Stato*) and in the Italian futures market (*Mercato Italiano dei Futures*). BCI also held a seat on the London International Financial Futures Exchange. BCI has also acted as a major broker of non-government bonds, eurobonds and equity securities.

BCI has had a leadership position in the credit derivatives market: in the special table related to commercial banks issued at the end of December 2000 by the *Office of Comptroller of the Currency (OCC)* it ranked second in terms of sale of protection and third in terms of total outstanding volumes in the USA and ranked first among all non-U.S. banking institutions.

BCI has provided financial advisory services in connection with mergers and acquisitions, corporate valuations and restructurings and management and leveraged buy-outs and makes investments in industrial and commercial corporations.

### **BCI Financial Summary**

The following table is extracted from the Annual Reports of BCI and its subsidiaries for the years ended 31 December 1999 and 31 December 2000. All figures set forth data relative to the consolidated financial position of BCI as of 31 December 1999 and 31 December 2000.

## Reclassified Consolidated Balance Sheet

### Assets

(billions of lire)	31.12.2000	31.12.1999	Changes		31.12.2000 (millions of euro)
			absolute	%	
		(*)			
1. Cash and deposits with central banks and post offices .....	1,756	1,588	168	10.6	907
2. Loans:.....					
- Customer loans .....	153,072	127,290	25,782	20.3	79,055
- Due from banks .....	54,252	49,485	4,767	9.6	28,019
3. Trading securities.....	35,562	35,316	246	0.7	18,366
4. Investments:.....					
a) securities .....	8,196	8,614	-418	-4.9	4,233
b) equity investments.....	1,744	2,840	-1,096	-38.6	902
c) fixed and intangible assets .....	3,963	3,993	-30	-0.8	2,046
5. Goodwill in BCI consolidated companies	1,373	998	375	37.6	709
6. Goodwill in other equity investments .....	42	41	1	2.4	22
7. Other asset items .....	20,759	17,596	3,163	18.0	10,720
<b>Total Assets .....</b>	<b>280,719</b>	<b>247,761</b>	<b>32,958</b>	<b>13.3</b>	<b>144,979</b>

### Liabilities

(billions of lire)	31.12.2000	31.12.1999	Changes		31.12.2000 (millions of euro)
			absolute	%	
		(*)			
1. Deposits: .....					
- Customer deposits .....	104,511	89,228	15,283	17.1	53,975
- Other due in securities .....	35,379	26,317	9,062	34.4	18,272
- Due to banks .....	94,728	91,681	3,047	3.3	48,923
2. Specific allowances .....	3,700	2,565	1,135	44.2	1,911
3. Other liabilities .....	23,380	20,049	3,331	16.6	12,075
4. Allowances for general credit risks .....	23	21	2	9.5	12
5. Perpetual and subordinated debt .....	7,384	6,512	872	13.4	3,814
6. Minority interests.....	1,257	1,811	-554	-30.6	649
7. Shareholders' equity:.....					
- Capital and reserves .....	8,948	8,802	146	1.7	4,621
- Negative consolidation differences .....	119	119	-	-	61
- Negative differences of net equity .....	-	-	-	-	-
- Net profit .....	1,290	656	634	96.6	666
<b>Total Liabilities .....</b>	<b>280,719</b>	<b>247,761</b>	<b>32,958</b>	<b>13.3</b>	<b>144,979</b>
Guarantees, commitments and credit derivatives.....	186,295	109,040	77,255	70.9	96,213
Securities in custody and administration .....	366,028	332,050	33,978	10.2	189,038

(\*) Restated for comparison purposes

*Reclassified Consolidated Profit and Loss Account*

(billions of lire)	2000	1999 (*)	Changes		2000 (millions of euro)
			absolute	%	
Net interests .....	4,498	4,436	62	1.4	2,323
Dividends .....	1,776	161	1,615	-	917
Profit from equity investments accounted .....					
for by the equity method .....	63	11	52	-	33
<b>Net interest income .....</b>	<b>6,337</b>	<b>4,608</b>	<b>1,729</b>	<b>37.5</b>	<b>3,273</b>
Net commissions .....	3,161	2,915	246	8.4	1,632
Profit from trading activities .....	534	590	-56	-9.5	276
Other operating income, net .....	381	562	-181	-32.2	197
<b>Net operating income .....</b>	<b>10,413</b>	<b>8,675</b>	<b>1,738</b>	<b>20.0</b>	<b>5,378</b>
General and administrative expenses .....	-5,566	-5,384	182	3.4	-2,875
<i>Of which: personnel expenses .....</i>	<i>-3,366</i>	<i>-3,309</i>	<i>57</i>	<i>1.7</i>	<i>-1,739</i>
Depreciation and amortization of fixed and intangible assets .....	-815	-789	26	3.3	-421
<b>Net operating profit .....</b>	<b>4,032</b>	<b>2,502</b>	<b>1,530</b>	<b>61.2</b>	<b>2,082</b>
Provisions for risks and charges .....	-386	-136	250	183.8	-199
Net write-down of loans and provisions for .. general credit risks .....	-1,577	-1,815	-238	-13.1	-814
Net write-down of financial investments .....	-11	-64	-53	-82.8	-6
<b>Profit before non-recurring items and     income taxes .....</b>	<b>2,058</b>	<b>487</b>	<b>1,571</b>	<b>-</b>	<b>1,063</b>
Non-recurring profit (losses) .....	-9	389	-398	-102.2	-5
Income taxes .....	-784	-126	658	-	-405
Change in allowance for general banking risk .....		-5	-5	-100.0	-
Minority interests .....	25	-89	114	128.1	13
<b>Net profit .....</b>	<b>1,290</b>	<b>656</b>	<b>634</b>	<b>96.6</b>	<b>666</b>

(\*) Restated for comparison purposes

**Description of Intesa**

**General**

Intesa was established in 1925 as *La Centrale*, a firm operating in the field of production and distribution of electricity. After the nationalisation of companies operating in this sector, in the early 1960s, the company changed its name into *La Centrale Finanziaria Generale*, acquiring equity investments in companies belonging to various productive sectors; particularly strong were the stakes acquired in banking, insurance and publishing companies. In 1985 *La Centrale Finanziaria Generale* merged with its controlling company, *Nuovo Banco Ambrosiano*, and took over its name and corporate purpose. As is generally known, *Nuovo Banco Ambrosiano* was established in 1982 by seven banks in order to take over *Banco Ambrosiano* which was undergoing compulsory liquidation procedures.

Following an initial period where difficulties were encountered, the shareholder base was widened by allowing the old shareholders of *Banco Ambrosiano* to become shareholders, by means of an increase in capital exclusively reserved for them. As of 1985, the founders of *Nuovo Banco Ambrosiano*, except *Banca San Paolo di Brescia* (today

known as Banca Lombarda), sold their stakes to other credit institutions and financial and insurance companies. After the operation completed in 1985 the Intesa Group (as defined below) assumed a new structure: Nuovo Banco Ambrosiano was the new parent company, controlling Banca Cattolica del Veneto and other companies active in other financial non-banking sectors.

In 1989 the parent company merged with Banca Cattolica del Veneto, changing its name to Banco Ambrosiano Veneto (*Ambroveneto*). In the following years Ambroveneto acquired and merged with other smaller banks: Banca Vallone in 1991, Ambroveneto Sud (formerly Citibank Italy) in 1992 and Società di Banche Siciliane in 1994; the following year it merged with the sub-holding Fiscambi Holding, thus acquiring direct control of the non-banking financial companies. In the early 1990s, Ambroveneto acquired a controlling stake in the Caboto Group, one of the most important financial operators in Italy, and in Banca di Trento e Bolzano.

In 1997 Ambroveneto completed the transaction which resulted in its most significant growth in terms of size. During the same year Fondazione Cassa di Risparmio delle Provincie Lombarde (*Fondazione Cariplo*) decided to privatise the Cassa di Risparmio delle Provincie Lombarde (*Cariplo*). This gave Ambroveneto's Board of Directors the opportunity to realise the objectives it had pursued for some time: to endow the Intesa Group (as defined below) with the strength, size and products required to meet the challenges posed by the new global market.

Ambroveneto and Fondazione Cariplo's shareholders' common objectives facilitated the conclusion of a merger agreement and its realisation. On July 30, 1997 the preliminary agreement was signed and on September 30, 1997 Ambroveneto resolved to issue new share capital and new bonds, for Lire 5,400 billion, in order to fund the merger. The merger was concluded during the first days of 1998, according to a plan which provided that the parent company of the new group should be a banking company holding the entire share capital of Ambroveneto and Cariplo. On January 1, 1998, Ambroveneto spun-off from the banking company (excluding one of its branches and some relevant controlling stakes it held) merging it with a wholly owned company (Euragrind), which was immediately renamed Banco Ambrosiano Veneto. The contributing company, in turn, changed its name to Banca Intesa. On January 2, 1998, Intesa acquired from Fondazione Cariplo the entire share capital of Cariplo.

Cariplo has been one of the most important banking institutions in Italy. Established at the beginning of the 1800s, it has always been the main reference point for Lombardy's economy and institutions. It has been active in all banking sectors: ordinary lending, real estate lending, agricultural credit and credit to the public sector.

Through various significant companies, leaders in their respective fields, it has also been active in long-term credit (Mediocredito Lombardo), mutual funds (Fondigest, now part of Intesa Asset Management), leasing (Leasindustria, now Intesa Leasing), factoring (Mediofactoring), financial intermediation (Intercassa, now merged with Caboto Sim), bancassurance (Carivita) and in credit and debit card management (Setefi).

As part of its strategy of conglomerating local *Casse di Risparmio*, Cariplo acquired, during the last decade, a controlling stake in three Casse di Risparmio in the South of Italy (Caripuglia, Carical and Cassa di Risparmio Salernitana). They were later merged into Banca Carime, one of the most important credit institutions of Southern Italy. Moreover Cariplo has also been active in Central Italy through its controlled companies, Cassa di Risparmio della Provincia di Viterbo, Cassa di Risparmio di Rieti, Cassa di Risparmio di Città di Castello, Cassa di Risparmio di Foligno, Cassa di Risparmio di Spoleto and Cassa di Risparmio di Ascoli Piceno as well as with smaller stakes in other Casse.

Between the end of 1998 and beginning of 1999, Intesa continued its consolidation and expansion strategy in the economically strong areas of Italy, with the acquisition of Banca Popolare FriulAdria and Cassa di Risparmio di Parma e Piacenza.

In 1999 Intesa proposed a stock swap for 70% of BCI's share capital which was finalised on 10 December 1999. As a consequence Intesa became the controlling shareholder of BCI with a 70% of share capital.

The integration between BCI and Intesa has led to the creation of the largest Italian banking group, in terms of total assets, customer deposits and loans, branch network and asset management.

On 31 December 2000 Ambroveneto Cariplo and Mediocredito Lombardo merged into Intesa.

On 28 February 2001 and on 1 March, 2001 the Extraordinary Meeting of Shareholders of BCI and Intesa, respectively, approved the project of BCI's merger into Intesa. The merger has been effective since 1 May, 2001.

The IntesaBci and IntesaBci Group figures are not yet available even on a pro-forma basis as of 31 December 2000. The difference between the figures of Intesa and its consolidated subsidiaries (*Intesa Group*) as of 31 December 2000 and the pro-forma figures of the IntesaBci Group at the same date is only due to the minority interest in BCI.

The following description relating to Intesa Group applies therefore to the IntesaBci Group as well.

## **Description of Intesa Group**

### **General**

Intesa Group operates, in a wide range of business areas in the fields of banking and finance.

These activities include taking deposits and granting loans, collection and payment systems, supporting international trade, securities intermediation, merchant banking, capital market services, securities custody and settlement, securities lending, operations in foreign exchange and derivatives, leasing, factoring, asset management, life insurance, supplementary pensions, electronic services and internet banking.

As a result of rapid growth in recent years, including the acquisition of BCI, Intesa Group is now the largest Italian banking group in terms of total assets, with Lire 643,000 billion in assets at the end of 2000. It also ranks as one of the leading banks at a national level in all of the business areas in which it is involved; in customer deposits and loans, handling volumes of Lire 370,000 billion and Lire 363,000 billion respectively in 2000, as well as in industrial loans, securities brokerage, factoring, individual and collective asset management, the production and sale of life insurance products and leasing.

Intesa Group has an extensive domestic customer base, particularly in retail (with around nine million customers) and in corporate. Intesa Group has strong roots in its territory with the considerable market leverage provided by more than 3,600 branches in Italy and a leadership role in some of the wealthiest and most dynamic parts of the country (for example Lombardy, the North-East and Emilia Romagna).

### **Banking Services**

Intesa Group comprises the entity resulting from the merger of CARIPLO-Cassa di Risparmio delle Provincie Lombarde S.p.A., Banco Ambrosiano Veneto (Ambroveneto) and Mediocredito Lombardo, as well as Cassa di Risparmio di Parma e Piacenza, Banca Popolare FriulAdria, CARIME (which is due to be disposed of shortly) and several other smaller banks. With more than 3,600 branches in all (approximately 13% of the national total), Intesa Group has the most widespread distribution network in Italy and a market share in Italy of around 17.5% of deposits and loans, in each case larger than any other Italian banking group.

### **Securities Brokerage**

Intesa Group also operates in this area through the Caboto group of companies. In total Intesa Group has overall market shares of 10% in the equity market (MTA), 7% in the wholesale government bond market (MTS) and 10% in the retail government and corporate bond market (MOT). Intesa Group is also active in advisory functions, assisting its customers in the placement of shares and debt securities, structuring syndicated loans, corporate finance and merchant banking.

### **Asset Management**

Intesa Group has a market share in this field of 19%, which is the highest in Italy. In addition to the activities of BCI and its subsidiaries, Intesa Group acts principally through Intesa Asset Management SGR, the company created by

amalgamating Fondigest (ex-CARIPLO), and La Centrale Fondi and Caboto Gestioni (both ex-Ambroveneto). Intesa Group now has Lire 214,000 billion of assets under management in around 100 different funds. Including managed portfolios and insurance products, total assets under management amount to nearly Lire 290,000 billion.

### **Insurance**

Intesa Group offers insurance services through its subsidiary Carivita as well as through marketing agreements with independent insurance companies. During 2000, Intesa Group collected approximately Lire 6,300 billion of gross life insurance premiums, giving it around a 8% share of the national market.

### **Intesa Group's Financial Summary**

The following table is extracted from the Financial Statements of Intesa Group for the year ended 31 December, 2000. All figures set forth data relative to the consolidated financial position of Intesa Group as of 31 December, 2000. Data relative to the consolidated financial position as of 31 December, 1999 have been restated for comparison purposes to take into account the acquisition of BCI.

## Reclassified Consolidated Balance Sheet

(millions of euro)

	2000	1999	Changes	
			absolute	%
<b>ASSETS</b>				
1. Cash and deposits with central banks and post offices ....	1,769.5	1,554.2	215.3	13.9
2. Loans				
- loans to customers .....	187,524.3	164,086.8	23,437.5	14.3
- due from banks .....	47,553.7	44,194.2	3,359.5	7.6
3. Securities held for trading .....	46,083.7	48,608.6	(2,524.9)	(5.2)
4. Fixed assets .....				
a) securities held for investment .....	13,004.9	12,797.1	207.8	1.6
b) equity investments .....	3,084.5	3,161.5	(77.0)	(2.4)
c) intangible and tangible fixed assets .....	5,476.0	5,747.2	(271.2)	(4.7)
5. Positive goodwill arising on consolidation .....	638.4	425.7	212.7	50.0
6. Positive goodwill arising on application of the equity method .....	51.1	4.3	46.8	
7. Other assets .....	27,081.0	27,816.5	(735.5)	(2.6)
<b>Total Assets</b> .....	<b>332,267.1</b>	<b>308,396.1</b>	<b>23,871.0</b>	<b>7.7</b>

## LIABILITIES AND SHAREHOLDERS' EQUITY

	2000	1999	Changes	
			absolute	%
1. Liabilities .....				
- due to customers .....	117,345.6	108,618.1	8,727.5	8.0
- securities issued .....	63,861.3	60,683.6	3,177.7	5.2
- due to banks .....	91,058.0	82,966.1	8,091.9	9.8
2. Specific allowances .....	7,091.9	6,108.7	983.2	16.1
3. Other liabilities .....	28,026.4	27,459.3	567.1	2.1
4. Allowance for possible loan losses .....	225.3	352.6	(127.3)	(36.1)
5. Subordinated liabilities .....	9,740.4	8,575.2	1,165.2	13.6
6. Minority interests.....	2,672.9	3,143.3	(470.4)	(15.0)
7. Shareholders' equity .....				
- share capital, reserves and reserve for general banking risks .....	10,765.2	9,369.7	1,395.5	14.9
- negative goodwill arising on consolidation .....	15.7	27.2	(11.5)	(42.2)
- negative goodwill arising on application of the equity method .....	3.1	3.4	(0.3)	(7.7)
- net income for the year .....	1,461.3	1,088.9	372.4	34.2
<b>Total Liabilities and Shareholders' equity</b> .....	<b>332,267.1</b>	<b>308,396.1</b>	<b>23,871.0</b>	<b>7.7</b>
Guarantees and commitments and credit derivatives .....	161,571.0	100,092.7	61,478.3	61.4
Securities in administration and in custody .....	324,690.4	297,033.8	27,656.6	9.3



Reclassified Consolidated Profit and Loss Account

(millions of euro)	2000	1999	Changes	
			absolute	%
<b>Statement of income</b>				
Net interest income .....	5,983.2	5,706.0	277.2	4.9
Dividends and other revenues .....	1,009.4	173.0	836.4	
Income from investments carried at equity.....	62.3	2.9	59.4	
<b>Interest margin .....</b>	<b>7,054.9</b>	<b>5,881.9</b>	<b>1,173.0</b>	<b>19.9</b>
Net commissions .....	4,286.6	3,928.4	358.2	9.1
Profits on financial transactions .....	193.9	163.5	30.4	18.6
Other net operating income.....	508.1	642.6	(134.5)	(20.9)
<b>Net interest and other banking income.....</b>	<b>12,043.5</b>	<b>10,616.4</b>	<b>1,427.1</b>	<b>13.4</b>
Administrative costs .....	(6,906.9)	(6,746.0)	160.9	2.4
<i>of which: payroll .....</i>	<i>(4,227.9)</i>	<i>(4,192.9)</i>	<i>35.0</i>	<i>0.8</i>
Adjustments to intangible and tangible fixed assets.....	(811.9)	(929.5)	(117.6)	(12.7)
<b>Operating margin .....</b>	<b>4,324.7</b>	<b>2,940.9</b>	<b>1,383.8</b>	<b>47.1</b>
Provisions for risks and charges .....	(332.8)	(255.3)	77.5	30.3
Net adjustments to loans and provisions to the allowance for possible loans losses .....	(1,355.0)	(1,609.5)	(254.5)	(15.8)
Net adjustments to financial fixed assets .....	(8.9)	(56.7)	(47.8)	(84.3)
<b>Income from operating activities .....</b>	<b>2,628.0</b>	<b>1,019.4</b>	<b>1,608.6</b>	<b>157.8</b>
Extraordinary income .....	155.4	776.3	(620.9)	(80.0)
Income taxes for the year .....	(1,144.2)	(389.3)	754.9	
Use of the allowance for future risks and charges .....	11.3	0	11.3	
Change in the reserve for general banking risks.....	40.1	(117.0)	157.1	
Income attributable to minority shareholders .....	(229.3)	(200.5)	28.8	14.3
<b>Net income for the year .....</b>	<b>1,461.3</b>	<b>1,088.9</b>	<b>372.4</b>	<b>34.2</b>
<b>Economic and financial ratios %</b>			<b>2000</b>	<b>1999</b>
<b>Balance Sheet Ratios</b>				
Loans to customers/total assets .....			56.4	53.2
Securities/total assets .....			17.8	19.9
Direct customer deposits/total assets .....			57.5	57.7
Managed funds/indirect customer deposits .....			45.7	50.1
<b>Statement of income ratio</b>				
Net commissions/net interest and other banking income.....			35.6	37.0
Operating costs/net interest and other banking income .....			64.1	72.3
Net income for the year/total assets (ROA) .....			0.4	0.4
Net income for the year/shareholders' equity (ROE) .....			13.5	13.1
<b>Risk ratios</b>				
Net non-performing loans/total loans.....			3.5	3.9
Total adjustments/gross-non performing loans .....			52.2	50.9

## Risk-based Capital Requirements and Solvency Ratios

### Credit Risk Ratios

Capital adequacy requirements applicable to Italian banks are regulated principally by EC Directive 89/299 (as amended), EC Directive 89/647, the Basle Committee's Risk Based Capital Guidelines, the Law Decree 92/87, the CICR Regulation as of 12 January 1994 and the regulations issued by the Bank of Italy in February 1994, June 1996, March 1997 and April 1999. According to such regulations, Italian banking groups are required to have a ratio of total capital to risk-weighted assets of at least 8% on a consolidated basis and Italian banks belonging to a banking group are required to have a ratio of total capital to risk-weighted assets of at least 7% on a stand-alone basis; whereas Italian banks not belonging to a banking group are required to have a ratio of at least 8%. At least half of the required capital must consist of Tier 1 capital ("core capital"), and the rest may consist of Tier 2 capital ("supplementary capital"). Core capital includes paid-in share capital, capital reserves, retained earning reserves and a special reserve denominated "*fondo per rischi bancari generali*", less own shares owned by the bank, goodwill, intangible assets and losses carried forward and incurred in the fiscal year. Tier 2 capital includes asset revaluation reserves, subordinated debt, hybrid quasi-equity instruments (such as non-redeemable loans) and other positive items, less net losses on securities and other negative items. There are also limitations on the maximum amount of supplementary capital. To calculate risk-weighted assets, assets and off-balance sheet items are weighted in relation to the nature of the debtors, the country risk and the guarantees and securities collateral received.

### Market Risk Ratios

As to the weighting of market risks implicit in securities, derivatives and foreign exchange transactions, the position is regulated mainly by EC Directive 93/6 and by further regulations issued by the Bank of Italy in June 1996 and April 1999. According to these regulations, Italian banks must satisfy further minimum capital requirements in proportion to the securities portfolio risk, which consists of position risk (general and specific), settlement risk and counterparty risk, as well as to the exchange risk involved in their total foreign currency exposure.

The methodology used to define the capital requirements is based on the so-called "block-building approach", which identifies different capital requirements for different risks categories.

The sum of the credit and market risks' requirements constitutes the minimum capital that Italian banks must comply with in order to cope with the various forms of business risk.

### Intesa Group Solvency Ratio as per credit and market risks' requirements

As of 31 December 2000, shareholders' equity pertaining to Intesa Group amounted to €12.2 billion (€10.5 billion as of 31 December 1999) and total capital as defined according to supervisory requirements amounted to €20.5 billion (€18.6 billion as of 31 December 1999) of which €13.7 billion as Tier 1 capital (€12.2 billion as of 31 December 1999), €7.3 billion as Tier 2 Capital (€6.9 billion as of 31 December 1999) and €0.5 billion (€0.5 billion as of 31 December 1999) as a deduction connected mainly to investments in non-consolidated banks and financial companies, with a solvency ratio (including both credit and market risk) in line with supervisory requirements.

## DESCRIPTION OF MERRILL LYNCH INTERNATIONAL

Merrill Lynch International (*MLI*) was incorporated under the laws of England on 2 November 1988 and its registered address is Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY.

MLI provides comprehensive investment, financing and related services to sovereign governments, corporations and other institutional clients and is engaged in the trading and dealing of equities, debt instruments, derivatives, currencies and other global traded securities. In the normal course of its business it acts as a counterparty for certain derivatives financial products including interest rate and currency swaps, caps and floors, currency options and credit derivatives. In the normal course of its business, MLI enters into repurchase and resale agreements with certain affiliated companies. MLI maintains positions in interest-bearing securities, financial futures and forward contracts primarily to hedge its exposures. MLI is regulated by the Securities and Futures Authority Limited.

## DESCRIPTION OF MERRILL LYNCH & CO., INC.

Merrill Lynch & Co., Inc. (the *Swap Guarantor*) was incorporated under the laws of the State of Delaware in the United States of America in 1973 and is listed on the New York Stock Exchange. The principal executive office of Merrill Lynch & Co., Inc is located at Merrill Lynch World Headquarters, 4 World Financial Center, New York, N.Y. 10080, U.S.A. The Credit Default Swap Guarantor's registered office in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, U.S.A.

Merrill Lynch & Co., Inc is a holding company that, through its US and non-US subsidiaries and affiliates such as Merrill Lynch, Pierce, Fenner & Smith Incorporated, Merrill Lynch Government Securities, Inc., Merrill Lynch International, Merrill Lynch Capital Markets Bank Limited, Merrill Lynch Investment Managers L.P. and Merrill Lynch Investment Managers Group Limited provides investment, financing, advisory, insurance and related products on a global basis, including:

- securities brokerage, trading and underwriting;
- investment banking, strategic services, including mergers and acquisitions and other corporate finance advisory activities;
- asset management;
- origination, brokerage, dealer and related activities in swaps, options, forwards, exchange traded futures, other derivatives and foreign exchange products;
- securities clearance and settlement services;
- equity, debt, foreign exchange, commodities and economic research;
- banking, trust and lending services, including mortgage lending and related services;
- insurance sales and underwriting services; and
- investment advisory and related record keeping services.

Merrill Lynch & Co., Inc provides these products and services to a wide array of clients, including individual investors, small businesses, corporations, governments, governmental agencies and financial institutions.

As of on or about 5 April 2001, (i) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Swap Guarantor are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch, and (ii) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the Swap Guarantor are currently rated AA- by S&P, Aa3 by Moody's and AA by Fitch. Such short-term and long-term debt ratings of the obligations of the Credit Default Swap Guarantor are subject to change. Merrill Lynch & Co., Inc undertakes no responsibility to update or notify anyone of any changes to the ratings of its short-term or long-term debt obligations.

## DESCRIPTION OF THE CREDIT DEFAULT SWAP

*The following description of the Credit Default Swap consists of a summary of certain of its provisions and is qualified by reference to the detailed provisions of the Credit Default Swap. The following summary does not purport to be complete, and prospective investors must refer to the Credit Default Swap for detailed information regarding the Credit Default Swap. Capitalised terms used in this section not defined elsewhere in this Information Memorandum have the meaning given to them in the Credit Default Swap.*

The Credit Default Swap will be entered into on the Closing Date between the Credit Default Swap Counterparty, the Servicer and the Issuer. A copy of the Credit Default Swap is available for inspection during normal business hours at the specified office of the Principal Paying Agent. Capitalised terms used in this section not defined elsewhere in this Information Memorandum have the meanings given to them in the Credit Default Swap. The Credit Default Swap is entered into pursuant to a 1992 ISDA Master Agreement (Multi-currency – Cross Border), Schedule and confirmation to be dated as of the Closing Date between the Issuer and the Credit Default Swap Counterparty.

Noteholders are deemed to have notice of the Credit Default Swap.

### Payment by the Credit Default Swap Counterparty

Under the terms of the Credit Default Swap, the Credit Default Swap Counterparty is obliged to make quarterly payments in Euro (each a *Fixed Rate Payment*) on 20 March, 20 June, 20 September and 20 December in each year (each a *Fixed Rate Payment Date*), which shall be the same dates as Interest Payment Dates under the Notes, commencing on 20 June, 2001 up to but excluding the date the Credit Default Swap terminates provided that such quarterly payments shall continue to be paid after such date in respect of the Reference Obligation Notional Amount of any Reference Obligation(s) in respect of which a Credit Event Notice has been served but the Valuation Date has not occurred. Fixed Rate Payments will be calculated by applying the Fixed Rate for the relevant Calculation Period to the Fixed Rate Payer Notional Amount. The Fixed Rate Payer Notional Amount shall in respect of each Calculation Period equal the sum of three notional tranches as at the Closing Date. The notional amount of the tranches as at the Closing Date shall be amounts corresponding to the Principal Amount Outstanding of each of the Class A Notes, the Class B Notes and the Class C Notes (the *Initial Notional Tranches*).

The Initial Notional Tranches shall be reduced (i) on each Fixed Rate Payment Date in an amount equal to any Cash Settlement Amount payable on such Fixed Rate Payment Date, such reduction being applied first to the notional tranche corresponding to the Class C Notes until it is equal to zero, then to the notional tranche corresponding to the Class B Notes until it is equal to zero and finally to the notional tranche corresponding to the Class A Notes, and (ii) on each Fixed Rate Payment Date falling on or after 20 June 2006 in an amount equal to any Cancelled Amount (other than a Cash Settlement Amount taken into account under (i) above) in respect of the immediately preceding Calculation Period provided and to the extent that the Aggregate Cancelled Amount exceeds the Amortisation Threshold, such reduction being applied in the reverse order to that set out in (i) above.

In the event that pursuant to Condition 3.1(d) the Principal Amount Outstanding of the Class C Notes is reduced in an amount equal to the Deposit Default Amount, the notional tranche corresponding to the Class C Notes shall be reduced in an amount equal to the Deposit Default Amount.

In the event that the Principal Amount Outstanding of the Notes is reinstated pursuant to Condition 7.3, then the notional tranches shall be increased in an amount equal to such Late Recovery Payment or Estimated Late Recovery Payment and such increase shall be first applied to the notional tranche corresponding to the Class A Notes, then to the notional tranche corresponding to the Class B Notes and finally to the notional tranche corresponding to the Class C Notes until each is equal to its initial amount less any amount by which the Principal Amount Outstanding has been reduced pursuant to (ii) above.

If the Swap Guarantor's S&P short-term rating falls below A-1+ or its Fitch short term rating falls below F1+ or if its Moody's long-term rating falls below Aa3 or any such rating is withdrawn, then payments relating to each Calculation Period due from the Credit Default Swap Counterparty under the Credit Default Swap shall thereafter be made to the

Issuer at the beginning of each Calculation Period instead of at the end. Pursuant to the Tripartite Agreement, IntesaBci S.p.A., London Branch has the right to nominate itself or any other third party, subject to IntesaBci S.p.A., London Branch or such third party (as the case may be) then satisfying the criteria specified by the Rating Agencies, to assume all the obligations of the Credit Default Swap Counterparty under the Credit Default Swap in the event of a default by the Credit Default Swap Counterparty thereunder. In the event that IntesaBci S.p.A., London Branch or such nominated party assumes the obligations of the Credit Default Swap Counterparty pursuant to the Tripartite Agreement, the payments relating to each Calculation Period under the Credit Default Swap shall be made by IntesaBci S.p.A., London Branch or such nominated party to the Issuer at the beginning of each Calculation Period instead of at the end unless IntesaBci S.p.A., London Branch or such nominated party has a rating of at least A-1+, F1+ or Aa3 as described above. Provided that IntesaBci S.p.A., London Branch fulfils its obligations under the Tripartite Agreement, such failure by the Credit Default Swap Counterparty will not result in an early termination of the Credit Default Swap.

Upon the termination of the Credit Default Swap, the provisions of Section 6(e) of the ISDA Master Agreement referred to above shall not apply. On the Termination Date or any Early Termination Date, the Credit Default Swap Counterparty shall pay the Issuer (or, if pursuant to having been downgraded as set out above and the Credit Default Swap Counterparty having paid the Fixed Rate Payment in advance on the preceding Fixed Rate Payment Date in respect of the then current Calculation Period, the Issuer shall pay to the Credit Default Swap Counterparty) an amount calculated in accordance with the formula set out in clause 4(c) of the Credit Default Swap (the *Termination Payment*) to reflect the fact that the Fixed Rate Payment was made in respect of a shortened Calculation Period. In the event of a termination of the Credit Default Swap, the Termination Payment shall be the sole amount owing and no additional amount shall be paid in respect of the mark-to-market value of the Credit Default Swap to, or any other loss incurred by, any party thereto.

The Credit Default Swap Counterparty will be required to make a gross-up payment upon the occurrence of certain taxation events as provided in the ISDA Master Agreement referred to above.

#### Payment by the Issuer

On each Cash Settlement Date, each of which is also an Interest Payment Date under the Notes, the Issuer may be required to make payments of Cash Settlement Amounts to the Credit Default Swap Counterparty in relation to any Reference Obligations in the Reference Portfolio in respect of which a Credit Event has occurred and in respect of which the Servicer or the Credit Default Swap Counterparty has delivered to the Issuer: (a) a notice of the occurrence of such Credit Event (a *Credit Event Notice*); (b) a certificate from an Independent Auditor confirming that (i) such Reference Obligation is in its reasonable opinion not a Non-Eligible Reference Obligation; (ii) that the Concentration Thresholds, the Claim Eligibility Criteria, the Replenishment Conditions or the Substitution Conditions (as the case may be) have been met in respect of such Reference Obligation and (iii) the Servicing Conditions (other than that set out in clause 5(d)(A)(iv) of the Credit Default Swap) have been satisfied in respect of such Reference Obligation; and (c) unless previously delivered by the Credit Default Swap Counterparty in respect of that Reference Obligation, a Qualified Credit Event Information Certificate from an Independent Auditor no later than 10 days before the relevant Valuation Date. If the certificate of the Independent Auditor or, unless previously delivered, the Qualified Credit Event Information Certificate, are not delivered prior to the Reporting Date immediately following the relevant Recovery Determination Date, no Credit Protection Amount shall be payable in respect of such Defaulted Reference Obligation, unless such certificates are delivered within a period of one year commencing on such Reporting Date. Subject to the foregoing, the Issuer is obliged to pay Cash Settlement Amounts in respect of Reference Obligations to the extent that the aggregate diminutions in the value of such Reference Obligations that have experienced a Credit Event exceeds the Threshold Amount.

The Hedging Swap has been concluded on terms substantially similar to the Credit Default Swap and contains provisions which, save for the references to the parties therein, are identical to the provisions in the Credit Default Swap relating to Credit Events. The Hedging Swap provides that if the Hedging Swap Protection Buyer serves a credit event notice in relation to any reference obligations in the Hedging Swap Reference Portfolio in respect of which a credit event has occurred (a *Hedging Swap Credit Event Notice*), it shall, in its capacity as Servicer, simultaneously

serve a Credit Event Notice on the Credit Default Swap Counterparty and the Issuer. Unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap, the Credit Default Swap Counterparty shall not be entitled to deliver a Credit Event Notice to the Issuer under the Credit Default Swap if it has not received a Hedging Swap Credit Event Notice in respect of any such Credit Event.

A Credit Event occurs in respect of a Reference Obligation upon the occurrence in relation to the relevant Reference Entity or the Relevant Airline of one or more of the following (as defined below): Bankruptcy or Failure to Pay. When determining the existence or occurrence of any Credit Event, the determination shall be made without regard to (a) the failure of the Reference Entity to make any payment as a result of compliance with any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described, or (b) the imposition of or any change in any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority.

The Credit Protection Amount in respect of a Reference Obligation will be calculated by IntesaBci S.p.A., London Branch (in its capacity as Calculation Agent). The cash settlement amount payable on each Cash Settlement Date (the *Cash Settlement Amount*) shall, subject to clause 5(k) of the Credit Default Swap be an amount equal to the aggregate of the Credit Protection Amounts in respect of Liquidated Reference Obligations payable on such Cash Settlement Date. The Cash Settlement Amount payable on any Cash Settlement Date shall not exceed the Fixed Rate Payer Notional Amount then applicable.

Pursuant to clause 5(k) of the Credit Default Swap, if the Deposit Bank fails to pay any amount owing to the Seller pursuant to the terms of the Deposit Agreement, Cash Settlement Amounts payable thereunder (but not the aggregate Cash Settlement Amount determined thereunder) shall, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Deposit Bank and/or where the amount is paid within two Business Days of the due date, be reduced in an amount in aggregate equal to such default. No Cash Settlement Amount shall be payable until the aggregate reduction in respect of Cash Settlement Amounts shall equal any default.

Where the Reference Obligation is a Secured Obligation, the Credit Protection Amount shall be calculated as the Reference Obligation Notional Amount of such Reference Obligation (or, in the case of a Reference Obligation that is a Letter of Credit, the amount drawn down under such Letter of Credit) as of the Valuation Date less the product of (i) the Aircraft Collateral Value and (ii) the Servicer's percentage share interest in the Aircraft Collateral Value as specified in the Credit Default Swap.

Where the Relevant Aircraft has been disposed of in accordance with certain sales criteria specified in the Credit Default Swap (the *Sales Criteria*), the value (in US Dollars) to be attributed to the Relevant Aircraft Collateral (the *Aircraft Collateral Value*) will be the sum of (i) the US Dollar gross realisation proceeds of the Relevant Aircraft which, for the avoidance of doubt, shall not be reduced by any repossession, redelivery and remarketing or maintenance or other costs (including, without limitation any possessory liens or similar security which shall be discharged prior to such realization), and (ii) the US Dollar gross realisation proceeds of, or the US Dollar value attributed to, the Relevant Aircraft Collateral other than the Relevant Aircraft on the Valuation Date by an Independent Auditor (acting, where necessary, in consultation with three independent aircraft appraisers) in accordance with the Independent Auditor Guidelines. Where the Relevant Aircraft has been disposed of other than in accordance with the Sales Criteria, the Aircraft Collateral Value will be the sum of (i) the higher of (aa) the US Dollar gross realisation proceeds of the Relevant Aircraft which, for the avoidance of doubt, shall not be reduced by any repossession, redelivery and remarketing or maintenance or other costs, (including, without limitation any possessory liens or similar security which shall be discharged prior to such realization), and (bb) the higher of the mean and the median of the US Dollar valuations for the Relevant Aircraft obtained from three independent aircraft appraisers as at the Valuation Date and (ii) the US Dollar value attributed to the Relevant Aircraft Collateral other than the Relevant Aircraft by an Independent Auditor (acting, where necessary in consultation with three independent aircraft appraisers) in accordance with the Independent Auditor Guidelines (as defined in the Credit Default Swap). In any other case, the Aircraft Collateral Value will be the sum of (i) the higher of the mean and the median of the US Dollar valuations for the Relevant Aircraft obtained from three independent aircraft appraisers and (ii) the US Dollar value

attributed to the Relevant Aircraft Collateral other than the Relevant Aircraft by an Independent Auditor (acting, where necessary in consultation with three independent aircraft appraisers) in accordance with the Independent Auditor Guidelines. If (i) the Servicer or any subsidiary or affiliate or agent of the Servicer purchases the Relevant Aircraft, (ii) the Relevant Aircraft is disposed of for an amount denominated in any currency other than US Dollars, or (iii) certain other provisions specified in the Credit Default Swap have not been enforced or complied with by the Relevant Airline prior to such sale, such disposal will be deemed to have been other than in accordance with the Sales Criteria. All valuations of Relevant Aircraft Collateral will be made in accordance with certain criteria specified in the Credit Default Swap (the *Valuation Criteria*) on the Valuation Date. The *Valuation Date* for a Secured Obligation shall be the earlier of (i) the date of actual disposition of the Relevant Aircraft (or, in the case where more than one Relevant Aircraft is associated with a Reference Obligation, the date of actual disposition of all such Relevant Aircraft); (ii) the date 365 calendar days (or if such day is not a Business Day, the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day) after delivery of the relevant Credit Event Notice to the Issuer and (iii) the date three Business Days prior to the Final Settlement Date.

If on or before the earlier to occur of (i) the fifth anniversary of the determination of a Credit Protection Amount in respect of any Secured Obligation for which a Cash Settlement Amount has been paid and (ii) the Final Settlement Date (being the earlier to occur of 20 June 2019 and the first anniversary of the Optional Termination Date) (the *Recovery Cut-off Date*) the Servicer or any of the Relevant Subsidiaries (as defined below) receives an amount (expressed in US Dollars after conversion, where necessary, at the Relevant Fixed Exchange Rate) greater than the value attributed to Aircraft Collateral Value in the calculation of such Credit Protection Amount (the *Late Recovery*), the Credit Default Swap Counterparty shall pay the amount by which such Late Recovery exceeds such value so attributed (the *Net Late Recovery Amount*, which shall not exceed the Credit Protection Amount in respect of such Liquidated Reference Obligation) to the Issuer on the Floating Rate Payment Date immediately following such receipt provided that (x) the aggregate of the Net Late Recovery Amounts and Estimated Late Recovery Amounts (as defined below) received by the Servicer and the Relevant Subsidiaries exceeds an amount equal to the greater of zero and the difference between (i) the aggregate of all cash settlement amounts (expressed in their US Dollar equivalent after conversion at the Euro Fixed Exchange Rate) paid by the Hedging Swap Protection Seller under the Hedging Swap (or, in the event that the Hedging Swap has been terminated, the amount which would otherwise have been paid thereunder) less (ii) USD 222,080,320 (the *Recovery Threshold*, and each such payment a *Late Recovery Payment*) and (y) the aggregate of the Late Recovery Payments shall not exceed the aggregate of the Cash Settlement Amounts actually paid by the Issuer under the Credit Default Swap (the *Recovery Limit*).

Three Business Days prior to any Recovery Cut-off Date a certificate shall be obtained from the Independent Auditor as to the amount it estimates (after consultation, if necessary, with the three independent aircraft appraisers) to be the unpaid but reasonably expected recoveries in respect of the relevant Reference Obligation (or in the case of the Final Settlement Date, any Defaulted Reference Obligation (as defined below) or any Liquidated Reference Obligation (as defined in the Credit Default Swap) or Reference Obligation in respect of which a Cash Settlement Amount has been paid but in respect of which the Recovery Cut-off Date has not occurred) (including, without limitation, any recoveries from explicit or implicit government support and foreclosure proceeds from the disposal of non-aircraft related assets) (the *Estimated Late Recovery*). The Credit Default Swap Counterparty shall pay the amount by which such Estimated Late Recovery exceeds the attributed value referred to above (the *Net Estimated Late Recovery Amount* which shall not exceed the Credit Protection Amount in respect of such Defaulted Reference Obligation or Liquidated Reference Obligation) to the Issuer on the Floating Rate Payment Date immediately following such determination provided and to the extent that the aggregate of the Net Late Recovery Amounts and the Net Estimated Late Recovery Amounts exceeds the Recovery Threshold (the *Estimated Late Recovery Payment*) but is less than the Recovery Limit.

Such Late Recovery Payment or Estimated Late Recovery Payment will be utilised by the Issuer in the following order of priority: (i) to acquire additional IGBs under the IGB Purchase Agreement so that, to the extent possible, the aggregate IGB Purchase Price of the IGB Portfolio is equal to the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes and (ii) the balance (if any) shall be placed on the Cash Deposit Account.

If the principal amount payable to the Noteholders under the Notes has been reduced by the amount of any payment required to be made by the Issuer under the Credit Default Swap and the Issuer subsequently receives a Late Recovery Payment or Estimated Late Recovery Payment from the Credit Default Swap Counterparty on any Floating Rate Payment Date (as such terms are defined in "Description of the Credit Default Swap" below), the principal amount payable to the Noteholders under the Notes will be reinstated as at that Floating Rate Payment Date in an aggregate amount equal to any such receipt. Such recoveries will be used first to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes and, following reinstatement in full of the Class A Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class B Notes and, following reinstatement in full of the Class B Notes, *pro rata* and *pari passu* to reinstate the Principal Amount Outstanding of the Class C Notes.

The Cash Settlement Amount payable on each Cash Settlement Date will be calculated on the basis of the Credit Protection Amounts (in respect of each Reference Obligation which becomes subject to a Credit Event and in respect of which a Credit Event Notice has been served and certain conditions satisfied) in respect of the relevant Calculation Period as described above.

Where the Reference Obligation is an Unsecured Obligation, the Credit Protection Amount shall be calculated by the Calculation Agent on the basis of market quotations determined in accordance with the standard procedures described in the 1999 ISDA Credit Derivatives Definitions. The *Valuation Date* for an Unsecured Obligation shall be the earlier of (i) the date 60 calendar days (or if such date is not a Business Day, the first following day that is a Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day) after the date the Issuer is given the relevant Credit Event Notice and (ii) the date three Business Days prior to the Final Settlement Date.

Any Reference Obligation which has been subject to a Credit Event and been valued in accordance with the above provisions shall cease to form part of the Reference Portfolio as of the Cash Settlement Date immediately following such valuation.

The Calculation Agent will notify the Issuer and the Trustee in writing of the amount of any payments to be made by the Issuer under the Credit Default Swap as promptly as practicable following the determination thereof, and the Trustee will notify each Noteholder of each relevant Class, not later than the Business Day following the related Cash Settlement Date, of the amount of such payment and the relevant Principal Amount Outstanding being reduced in connection with such payments.

The parties to the Credit Default Swap specifically acknowledge that the obligation of the Issuer to make payments to the Credit Default Swap Counterparty is not contingent upon the Credit Default Swap Counterparty or the Servicer suffering any loss, or being obliged to make any payment, or making any payment under any related swap or in respect of a Reference Obligation as a result of the occurrence of a Credit Event.

#### **Termination of the Credit Default Swap**

Unless previously terminated, the Credit Default Swap will terminate simultaneously (i) with the payment in full in accordance with the Conditions of the Principal Amount Outstanding of the Notes and interest accrued thereon and all other amounts (if any) payable in respect of the Notes (other than a payment in full as contemplated in Condition 3.1(b)) or (ii) upon the Notes becoming redeemable prior to their maturity date (other than a partial redemption as contemplated in Condition 3.1(c) unless pursuant thereto all of the Notes are reduced to zero and redeemed in full or redemption as contemplated in Condition 3.1(d)), including as a result of certain tax events described in Condition 3.4 of the Notes provided that the Credit Default Swap Counterparty shall have the right, but not the obligation, to pay such additional amounts to the Issuer so as to ensure that the Issuer is able to make payments to the Noteholders as if the events set out in Condition 3.4 of the Notes had not occurred.

The Credit Default Swap may be terminated by the Credit Default Swap Counterparty, at its sole discretion and with no additional cost, in whole but not in part and with 10 Business Days prior written notice, provided, in the case of (i), (ii) and (iii) below, that notice has been given to terminate the Hedging Swap (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap):



- (i) on any Fixed Rate Payment Date, in the event that the aggregate Reference Obligation Notional Amount of all outstanding Reference Obligations falls below 10% of the Initial Principal Balance;
- (ii) on any Fixed Rate Payment Date occurring on or after the third anniversary of the Closing Date, in the event of an Adverse Change;
- (iii) on the Fixed Rate Payment Date falling on 20 June 2006 and 20 June 2013 or, in each case, on the next following Fixed Rate Payment Date; or
- (iv) if notice has been given to terminate the Hedging Swap in accordance with its terms for any reason whatsoever by either party thereto except where the Credit Default Swap is to be novated in accordance with the provisions of the Tripartite Agreement.

Either party to the Credit Default Swap may terminate the Credit Default Swap upon the occurrence of certain Events of Default and Termination Events (as such terms are defined in the Credit Default Swap) including:

- (i) a failure on the part of the other party to make payment when due and payable under the Credit Default Swap and such failure is not remedied within 3 Business Days after notice of such failure is given to such party;
- (ii) failure by the other party to comply with the terms of the Credit Default Swap unless remedied within 30 calendar days after notice of such failure is given to such party;
- (iii) any representation made or deemed to be repeated by the other party under the Credit Default Swap proves to have been incorrect or misleading in any material respect when made or repeated or deemed to be repeated;
- (iv) certain insolvency events occur in relation to the other party; and
- (v) certain tax related events.

Each of the following events shall automatically terminate the Credit Default Swap, with effect on the date of the occurrence of such event (in the case of (i) and (ii) below) or the effective date of the relevant termination (in the case of (iii) below):

- (i) the Issuer defaults in the payment of any interest or principal due in respect of any Note, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Issuer and/or where the amount is paid within three Business Days of the due date;
- (ii) all of the Notes are redeemed in full pursuant to the Conditions; and
- (iii) the Total Return Swap is terminated in accordance with its terms for any reason whatsoever by either party thereto other than pursuant to Clause 6.1(iii) thereof or where the Total Return Swap is to be novated in accordance with the provisions of the Tripartite Agreement.

The Hedging Swap has been concluded on terms substantially similar to the Credit Default Swap and contains termination provisions which, save for the references to the parties therein, are identical to the terms set out above in respect of the Credit Default Swap (save that the provision providing for automatic termination on the Hedging Swap being terminated in accordance with its terms is replaced with an identical provision referring to the Credit Default Swap being terminated in accordance with its terms).

#### **Payments on Termination of the Credit Default Swap**

Notwithstanding a termination of the Credit Default Swap, the Issuer will remain obligated to pay the Cash Settlement Amounts in respect of any Reference Obligation which become subject to a Credit Event and in respect of which a Credit Event Notice is served on or before the Termination Date of the Credit Default Swap. Any payments to be made by the Issuer in respect of any such Reference Obligation shall be made on the Cash Settlement Date immediately following the Valuation Date in respect of such Reference Obligation.

Otherwise than set out in the paragraph above and in respect of the Termination Payment, the Late Recovery Payment and the Estimated Late Recovery Payment, no payments are required to be made by either the Issuer or the Credit Default Swap Counterparty on a termination of the Credit Default Swap.

#### **Clause 5(h) of the Credit Default Swap**

On the Closing Date, MLI, in its capacity as Hedging Swap Protection Seller, will enter into the Hedging Swap with IntesaBci S.p.A., London Branch in its capacity as Hedging Swap Protection Buyer. Clause 5(h) of the Credit Default Swap sets out the circumstances in which the Credit Default Swap Counterparty is obliged, subject in certain circumstances to confirmation from the Rating Agencies that the addition of such Reference Obligations will not result in a reduction or withdrawal of the ratings of the outstanding Notes, to effect certain changes to the Reference Portfolio. Clause 5(h) is set out in full below:

"The Hedging Swap has been concluded on terms substantially similar to this Transaction. The Hedging Swap contains provisions which, save for the references to the parties therein, are identical to the Claim Eligibility Criteria, the Replenishment Conditions, the Substitution Conditions, the Concentration Thresholds, the Servicing Conditions and the clauses in this Confirmation relating to the removal of any Non-Eligible Reference Obligation, the cancellation of Unused Capacity, the determination of the occurrence of Credit Events and the calculation of Cash Settlement Amounts (other than the maximum aggregate Cash Settlement Amount payable thereunder). The initial reference portfolio under the Hedging Swap will be identical in all respects to the Initial Reference Portfolio (the *Hedging Swap Reference Portfolio*). To ensure that the Reference Portfolio reflects any changes made to the Hedging Swap Reference Portfolio by the Hedging Swap Protection Buyer, the Buyer shall, under the terms of the Hedging Swap, be obliged to and may only effect any Replenishment, Substitution, removal of a Non-Eligible Reference Obligation or cancellation of Unused Capacity, if and to the extent that the Hedging Swap Protection Buyer effects such a change to the Hedging Swap Reference Portfolio thereunder (unless the Hedging Swap shall have been terminated and such termination shall not have resulted in a termination of the Credit Default Swap). The Hedging Swap Protection Buyer shall, however, obtain the prior consent of the Credit Default Swap Counterparty to any addition to the Hedging Swap Reference Portfolio by way of Replenishment or Substitution of (i) a Reference Obligation relating to a Reference Airline domiciled in an Emerging Market that does not have an Investment Grade rating from at least one of the Rating Agencies, or (ii) a Reference Obligation which is a Letter of Credit. The prior consent of the Credit Default Swap Counterparty to any Replenishment or Substitution shall also be required if the aggregate Reference Obligation Notional Amount of Discharged Reference Obligations exceeds 23% of the Initial Principal Balance."

#### **Replenishment**

To the extent so required pursuant to clause 5(h) of the Credit Default Swap, the Credit Default Swap Counterparty shall, without the consent of the Trustee but subject to confirmation from the Rating Agencies that the addition of such Reference Obligations will not result in a reduction or withdrawal of the ratings of the outstanding Notes, add new Reference Obligation(s) to the Reference Portfolio on any Replenishment Date during the Replenishment Period, provided that all the Replenishment Conditions are met as of the relevant Replenishment Date. Once a Credit Protection Amount with a value greater than zero has been determined under the Credit Default Swap, no further Replenishment shall be effected unless the prior confirmation of the Rating Agencies has been obtained. For a fuller description see above under "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*".

#### **Substitution**

To the extent required pursuant to clause 5(h) of the Credit Default Swap, the Credit Default Swap Counterparty may, without the consent of the Trustee but subject to confirmation from the Rating Agencies that the addition of such Reference Obligations will not result in a reduction or withdrawal of the ratings of the outstanding Notes, substitute a new Reference Obligation for any Reference Obligation including a Reference Obligation which has become a Non-Eligible Reference Obligation on any Substitution Date during the Substitution Period, provided that the Substitution

Conditions are met as of the relevant Substitution Date. Once a Credit Protection Amount with a value greater than zero has been determined under the Credit Default Swap, no further Substitution shall be effected unless the prior confirmation of the Rating Agencies has been obtained. For a fuller description see above under "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*". The Substitution of a Reference Obligation for a Non-Eligible Reference Obligation shall take place either on the same Substitution Date on which such Non-Eligible Reference Obligation is removed from the Reference Portfolio or on one of the next two immediately following Substitution Dates.

### Discharged Reference Obligations

On the Cash Settlement Date on which the Credit Protection Amount in respect of a Discharged Reference Obligation falls to be included in the Cash Settlement Amount, the Credit Default Swap Counterparty shall remove such Discharged Reference Obligation from the Reference Portfolio. The Reference Obligation Notional Amount of such Discharged Reference Obligation shall be added to the Cancelled Amounts. No new Reference Obligation may be added to the Reference Portfolio by way of Replenishment or Substitution of a Discharged Reference Obligation.

### Servicing Conditions

These are described above under "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*".

### Non-Eligible Reference Obligations

To the extent required pursuant to clause 5(h) of the Credit Default Swap and subject to the Substitution Conditions, the Credit Default Swap Counterparty shall remove any Reference Obligation which has become a Non-Eligible Reference Obligation from the Reference Portfolio on the Substitution Date immediately following the date on which such relevant Reference Obligation became a Non-Eligible Reference Obligation.

### Reduction of Portfolio Size

The Initial Principal Balance of the Reference Portfolio is USD 1,009,456,000. At any time, the Reference Obligation Notional Amount of Reference Obligations forming part of the Reference Portfolio shall not exceed the Initial Principal Balance less the Aggregate Cancelled Amount (the *Maximum Portfolio Amount*).

In the event that the Maximum Portfolio Amount is less than the Initial Principal Balance, any such reduction in the size of the Reference Portfolio will not lead to any change to the Principal Amount Outstanding of any Class of Notes. If, however, the Aggregate Cancelled Amount exceeds the Amortisation Threshold, the Issuer will be required to redeem the Notes in an amount equal to each additional Cancelled Amount in accordance with the provisions of Condition 3.1 (c).

### Extensions

If the maturity date of a Reference Obligation is extended (an *Extended Reference Obligation*) then:

- (a) if the extended maturity date falls later than 20 June 2018, such Extended Reference Obligation shall become a Non-Eligible Reference Obligation and to the extent required pursuant to clause 5(h) of the Credit Default Swap, the Credit Default Swap Counterparty will remove such Reference Obligation from the Reference Portfolio on the immediately following the Fixed Rate Payment Date; and
- (b) if the extended maturity date is on or earlier than 20 June 2018, the Extended Reference Obligation may form part of the Reference Portfolio provided that the Servicing Conditions will continue to be satisfied, failing which it will become a Non-Eligible Reference Obligation.

## Quarterly Reporting

On each date which is three Business Days prior to each Fixed Rate Payment Date (each such date, a *Reporting Date*) (except for the first Reporting Date, which is the Closing Date), the Calculation Agent will provide a report to the Issuer (the *Quarterly Report*) showing details, inter alia, of: (i) the Credit Event Notices delivered since the last Reporting Date; (ii) the calculations of any Credit Protection Amounts and the Cash Settlement Amount for the Calculation Period to which such Reporting Date relates; (iii) any Substitution or Replenishment which will be effected on the immediately following Replenishment Date or Substitution Date (as the case may be), together with the Non-Eligible Reference Obligations to be removed; (iv) the calculation of Unused Capacity utilised since the previous Reporting Date; (v) the calculation of any Cancelled Amounts since the previous Reporting Date; (vi) the aggregate of the Cash Settlement Amounts paid by the Seller since the previous Reporting Date; (vii) the amount of any Late Recovery Payments or Estimated Late Recovery Payments to be received; and (viii) a revised Portfolio List showing the Reference Portfolio at such date.

On the final Reporting Date in any calendar year the Portfolio List provided by the Calculation Agent to the Issuer shall include an updated version of each of the Tables presently appearing in the section headed "*The Reference Portfolio – Claim Eligibility Criteria, Replenishment, Substitution and Servicing Conditions and Initial Reference Portfolio Characteristics*" and updated Base Value aircraft appraisals in respect of all Secured Obligations from the Aircraft Appraisers which shall have been completed by the Aircraft Appraisers not more than 30 calendar days prior to the relevant Reporting Date. The Issuer shall furnish a copy of each Quarterly Report to the Rating Agencies.

Nothing in any Quarterly Report shall require the Calculation Agent to reveal the actual identity of any Reference Entity.

## Credit Event Definitions

*Bankruptcy* means the relevant Reference Entity or Relevant Airline: (i) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (ii) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (iii) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (iv) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (v) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (vi) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (vii) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; or (viii) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in Clauses (i) to (vii) (inclusive). *Provided that* (i) where the Reference Entity is not the Relevant Airline, Bankruptcy of the Reference Entity shall not be a Credit Event unless the Bankruptcy of the Reference Entity shall have followed a failure by the Relevant Airline to pay any amount due to the Reference Entity in accordance with the terms and conditions of the Relevant Lease Agreement, and (ii) where the payments under the Reference Obligation continue to be made, the Bankruptcy of the Relevant Airline shall not be a Credit Event unless such Bankruptcy has resulted in the acceleration of the Reference Obligation.

*Failure to Pay* means with respect to:

(A) any Secured Obligation, that a payment in an aggregate amount of not less than the lower of (i) USD 1,000,000, or its equivalent in any other currency, or (ii) 2% of the Reference Obligation Notional Amount of such

Reference Obligation, has not been made when and where due after the expiration of any applicable (or deemed) Grace Period (as such term is defined in the 1999 ISDA Credit Derivatives Definitions)(after the satisfaction of any conditions precedent to the commencement of such Grace Period). *Provided that* it shall only be a Failure to Pay if (i) the failure to pay the relevant payment obligation of the Reference Entity followed a failure by the Relevant Airline to pay any amount due by it to the Reference Entity; and (ii) an initial failure to pay by the Relevant Airline under the Relevant Lease Agreement was not subsequently cured in accordance with the requirements of the governing law of the Relevant Lease Agreement; and

(B) any Unsecured Obligation, that a payment in an aggregate amount of not less than USD 1,000,000, or its equivalent in any other currency, has not been made when and where due after the expiration of any applicable (or deemed) Grace Period (as such term is defined in the 1999 ISDA Credit Derivatives Definitions)(after the satisfaction of any conditions precedent to the commencement of such Grace Period).

### **Guarantee**

The obligations of the Credit Default Swap Counterparty under the Credit Default Swap have been unconditionally guaranteed by the Swap Guarantor pursuant to the Swap Guarantee. A copy of the Swap Guarantee is available for inspection during normal business hours at the specified office of the Principal Paying Agent.

## THE IGB PURCHASE AGREEMENT AND THE TOTAL RETURN SWAP

*The following description of the IGB Purchase Agreement and the Total Return Swap consists of a summary of certain provisions of the IGB Purchase Agreement and the Total Return Swap and is qualified by reference to the detailed provisions of the IGB Purchase Agreement and the Total Return Swap. The following summary does not purport to be complete, and prospective investors must refer to the IGB Purchase Agreement and the Total Return Swap for detailed information regarding the IGB Purchase Agreement and the Total Return Swap. Capitalised terms used in this section not defined elsewhere in this Information Memorandum have the meaning given to them in the IGB Purchase Agreement or the Total Return Swap (as the case may be).*

*Noteholders are deemed to have notice of the IGB Purchase Agreement and the Total Return Swap.*

### IGB PURCHASE AGREEMENT

The IGB Purchase Agreement will be entered into on the Closing Date between the Issuer and the IGB Purchase Counterparty. A copy of the IGB Purchase Agreement is available for inspection during normal business hours at the specified office of the Principal Paying Agent.

Under the terms of the IGB Purchase Agreement, on the Closing Date the Issuer will use the proceeds of the Class A Notes and the Class B Notes to acquire IGBs with an aggregate IGB Purchase Price equal to the aggregate principal amount of the Class A Notes and the Class B Notes. All IGBs forming part of the IGB Portfolio shall have a remaining stated term to maturity of a maximum of ten years (ignoring any possible extension) as at the date of acquisition by the Issuer. Any receipt of an IGB Coupon will be deposited in the Client Cash Account.

On the date upon which the Issuer receives any Late Recovery Payment or Estimated Late Recovery Payment, the Issuer shall acquire IGBs with an aggregate IGB Purchase Price equal to such amount of such receipt as is necessary to ensure that the aggregate IGB Purchase Price of the IGB Portfolio is equal to the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes (following the reinstatement of the Principal Amount Outstanding of such Notes pursuant to Condition 7.3). The balance, if any, of such receipt shall be deposited in the Cash Deposit Account.

Upon the maturity or early redemption of any IGBs in the IGB Portfolio, the Issuer shall invest amounts received in respect of such maturing or redeemed IGBs in acquiring replacement IGBs with an aggregate IGB Purchase Price equal to the aggregate IGB Purchase Price of the maturing IGBs.

As a condition of the obligation of the IGB Purchase Counterparty to sell the IGBs, and in consideration of that agreement, the Issuer has granted to the IGB Purchase Counterparty an irrevocable option to purchase at the then prevailing market price and in accordance with the terms of the IGB Purchase Agreement each IGB which the Issuer may from time to time realise (the *Option*).

The Issuer shall give written notice of its intention to sell any IGB to the IGB Purchase Counterparty, the Trustee and the Custodian not less than two Business Days prior to the date of the intended sale and the IGB Purchase Counterparty may, by written notice (the *Option Notice*) delivered to the Issuer, the Trustee and the Custodian not less than one Business Day prior to the date of intended sale, confirm that it has exercised its Option to purchase the IGB at the market price prevailing on the date of sale of same, which market price shall be certified by the Calculation Agent. The Trustee shall not exercise any discretion in relation to such sale and shall act on the instructions of the Issuer.

The Issuer undertakes upon timely receipt of an Option Notice to transfer the relevant IGBs upon the written instructions of the IGB Purchase Counterparty to or to the order of the IGB Purchase Counterparty at the IGB Purchase Counterparty's cost and expense.

If the sovereign credit rating of the Republic of Italy falls below AA- (in the case of S&P), AA- (in the case of Fitch) or Aa3 (in the case of Moody's) or any such rating is withdrawn, the IGB Portfolio shall be realised by the Issuer

within five Business Days and the net proceeds of the sale received by the Issuer in respect of such realised IGBs shall be invested in collateral acceptable to the Rating Agencies and the Trustee.

The IGBs will be held for the account of the Issuer by the Custodian pursuant to the Custody Agreement.

### TOTAL RETURN SWAP

The Total Return Swap will be entered into on the Closing Date between the Issuer and the Total Return Swap Counterparty. A copy of the Total Return Swap is available for inspection during normal business hours at the specified office of the Principal Paying Agent.

#### Payments by the Issuer and the Total Return Swap Counterparty

Under the terms of the Total Return Swap, the Issuer is obliged to pay the Coupon, if any, received on any IGB held by it to the Total Return Swap Counterparty within two Business Days of receipt. On each 20 March, 20 June, 20 September and 20 December (each a *Total Return Swap Payment Date*), which shall be the same dates as the Interest Payment Dates under the Notes and the Fixed Rate Payment Dates under the Credit Default Swap, commencing on 20 June, 2001 up to but excluding the date on which the Total Return Swap terminates (which shall be the date on which the Credit Default Swap terminates), the Total Return Swap Counterparty is obliged to make quarterly payments in Euro (each a *Total Return Swap Floating Rate Payment*) which will be based on EURIBOR applied for the relevant calculation period on the notional amount of the Total Return Swap. The notional amount of the Total Return Swap will be equal to 90% of the aggregate IGB Market Price of the IGBs held by the Issuer from time to time during such calculation period.

Upon the maturity of any IGBs held by the Issuer, the Issuer shall invest amounts received in respect of such maturing IGBs in acquiring replacement IGBs with an aggregate IGB Purchase Price equal to the IGB Purchase Price of the maturing IGBs. Any excess of the amount received in respect of the maturing IGBs over the IGB Purchase Price relating to the replacement IGBs shall be paid by the Issuer to the Total Return Swap Counterparty. If the amounts received in respect of the maturing IGBs are less than the IGB Purchase Price relating to the replacement IGBs, the IGB Shortfall shall be paid from the Total Return Swap Counterparty to the Issuer.

In the event that the Issuer is required on any Cash Settlement Date to make a payment under the Credit Default Swap and the Issuer Account Surplus and the Cash Deposit are insufficient to pay in full the Cash Settlement Amount (the balance being the Net Required Payment), the Issuer will be required to direct the Custodian to sell IGBs with an aggregate IGB Market Price equal to the product of (i) the aggregate IGB Market Price of all IGBs and (ii) the Net Required Payment divided by the then Principal Amount Outstanding of the Class A Notes and the Class B Notes. To the extent that the IGB Sale Proceeds exceed the Net Required Payment, the Issuer will pay such excess to the Total Return Swap Counterparty. To the extent that the IGB Sale Proceeds are less than the Net Required Payment, the Total Return Swap Counterparty shall pay such shortfall to the Issuer.

On each Fixed Rate Payment Date falling on or after 20 June 2006, the Fixed Rate Payer Notional Amount (as such terms are defined in the Credit Default Swap) will automatically be reduced in an amount equal to any Cancelled Amount (other than a Cash Settlement Amount) in respect of the immediately preceding Calculation Period provided and to the extent that the Aggregate Cancelled Amount exceeds the Amortisation Threshold. On each such date the Issuer will be required, pursuant to the provisions of Condition 3.1(c), to apply an amount equal to such Cancelled Amount in redemption of the Notes. Except to the extent that such redemption payment can be made by the Issuer from the Issuer Account Surplus (the balance being the *Net Required Redemption Payment*), the Issuer will forthwith direct the Custodian to sell IGBs with an aggregate IGB Market Price equal to the product of (i) the aggregate IGB Market Price of the IGB Portfolio and (ii) the Net Required Redemption Payment divided by the then notional amount of the Total Return Swap. To the extent that the IGB Redemption Sale Proceeds exceed the Net Required Redemption Payment, the Issuer shall pay an amount equal to such excess to the Total Return Swap Counterparty. To the extent that the IGB Redemption Sale Proceeds are less than the Net Required Redemption Payment, the Total Return Swap Counterparty will pay an amount equal to such shortfall to the Issuer.

## Reduction of Notional Amount and Termination of the Total Return Swap

### *Reduction of Notional Amount*

If the Issuer is required to sell any of the IGBs (as described under "*Termination*" below), then the notional amount of the Total Return Swap will be reduced by an amount equal to the Net Required Payment or the Net Required Redemption Payment with effect from the date on which payment is made.

### *Termination*

The Total Return Swap will terminate following a termination of the Credit Default Swap (see "*Description of the Credit Default Swap—Termination of the Credit Default Swap*"). If not previously terminated, the Total Return Swap will terminate on the Final Settlement Date.

Either party to the Total Return Swap may terminate such transaction upon the occurrence of certain Events of Default including:

- (a) a failure on the part of the other party to make payment when due and payable under the Total Return Swap and such failure is not remedied within 3 Business Days after notice of such failure is given to such party;
- (b) failure by the other party to comply with the terms of the Total Return Swap unless remedied within 30 calendar days after notice of such failure is given to such party;
- (c) any representation made or deemed to be repeated by the other party under the Total Return Swap proves to have been incorrect or misleading in any material respect when made or repeated or deemed to be repeated;
- (d) certain insolvency events occur in relation to the other party; and
- (e) certain tax related events.

On any such termination of the Total Return Swap, the Issuer will also be required to sell all IGBs held by it and immediately thereafter the notional amount of the Total Return Swap will be reduced to zero.

In addition the Issuer has the right to terminate the Total Return Swap on 20 June 2006 provided that, immediately on termination thereof, the Issuer enters into a replacement total return swap on substantially the same terms as the Total Return Swap with a replacement counterparty acceptable to the Rating Agencies and in accordance with the substitution provisions set out in "*Risk Factors*" above. No payment shall be made by the Total Return Swap Counterparty to the Issuer or from the Issuer to the Total Return Swap Counterparty in respect of such termination.

### **Additional Payments**

The Total Return Swap Counterparty will pay to the Issuer any additional amounts so as to ensure that the Issuer can meet its administrative costs and other obligations in respect of fees and commissions, including without limitation, the commission to which each Note Placement Agent is entitled in accordance with the terms of the Note Placement Agreement and the costs of any arbitrator appointed under the Credit Default Swap. In the event that the Deposit Bank is downgraded (as referred to in the section headed "*Risk Factors*" above) and any replacement bank agrees to pay interest on the Cash Deposit at a margin below that paid by IntesaBci S.p.A., London Branch as Deposit Bank (see – "*Risk Factors*"), the Total Return Swap Counterparty shall pay to the Issuer an amount on each Total Return Swap Payment Date equal to such margin with effect from the date of replacement as applied to a notional amount (which will correspond to the amount of the Cash Deposit).

### **Downgrade of the Swap Guarantor**

The Swap Guarantor currently has a short-term rating of A-1+ (in the case of S&P), F1+ (in the case of Fitch) and P-1 (in the case of Moody's). If the Swap Guarantor's S&P short-term rating falls below A-1+, its Fitch short-term rating falls below F1+ or its Moody's long-term rating falls below Aa3 or any such rating is withdrawn, the Total



Return Swap Counterparty will be obligated to (i) provide such collateral as may be required by the Rating Agencies to ensure that the then current ratings of the Notes are not withdrawn or reduced below their current levels or (ii) to transfer its obligations under the Total Return Swap to a counterparty who has the following ratings from the Rating Agencies: a short-term rating of at least A-1+ (in the case of S&P) and F1+ (in the case of Fitch) and a long-term rating of at least Aa3 (in the case of Moody's) or as otherwise acceptable to the Rating Agencies or (iii) obtain a guarantee in respect of its obligations from a third party having the following ratings from the Rating Agencies: a short-term rating of at least A1+ (in the case of S&P) and F1+ (in the case of Fitch) and a long-term rating of at least Aa3 (in the case of Moody's).

#### **Guarantee**

The obligations of the Total Return Swap Counterparty under the Total Return Swap have been unconditionally guaranteed by the Swap Guarantor pursuant to the Swap Guarantee.

## THE ISSUER

### General

The Issuer was incorporated in the Republic of Ireland (with registered number 341696) on 12 April, 2001 as a public company limited by shares under the Irish Companies Acts 1963 to 1999. The authorised share capital of the Issuer is EUR40,000 divided into 40,000 ordinary shares of EUR1 each, all of which have been issued at par, are fully paid and are held, directly or through its nominees, by the Share Trustee under the terms of a charitable trust established under English law by a declaration of trust dated 23 April, 2001 and made by the Share Trustee in favour of the INSEAD Trust for European Management Education or other charities with management education as their object. The registered office of the Issuer is at 2 Harbourmaster Place, International Financial Services Centre, Dublin 1, Ireland. The Issuer has no subsidiaries or subsidiary undertakings.

Neither MLI nor IntesaBci has any legal or beneficial ownership in the Issuer nor any control or influence over its business or affairs.

### Directors and Secretary

The Directors of the Issuer are:

Name	Business Address	Principal Activities
Adrian J. Masterson	68 Merrion Square Dublin 2	Financial Advisor
John Walley	6th Floor, Block 3 Harcourt Centre Harcourt Road Dublin 2	Financial Services Consultant

The Directors have been nominated under the terms of the Corporate Officers Agreement. Mr. Masterson and Mr. Walley are both directors of the Corporate Officers Provider.

The initial company secretary of the Issuer is HMP Secretarial Limited, but with effect from the Closing Date the company secretary will be AIB International Financial Services Limited, whose principal address is AIB International Centre, International Financial Services Centre, Dublin 1, pursuant to the Corporate Administration Agreement.

### Capitalisation and Indebtedness Statement

The following table shows the capitalisation and indebtedness of the Issuer as at the date of this Information Memorandum, adjusted for the issue of the Notes:

EUR

#### *Authorised Share Capital*

Ordinary Shares of EUR40,000

#### *Issued*

Ordinary Shares of EUR1 each of which are fully paid up 40,000

#### *Loan Capital*

EUR 56,000,000 Class A Secured Floating Rate Notes due 2019 56,000,000

EUR 84,000,000 Class B Secured Floating Rate Notes due 2019 84,000,000

EUR 33,600,000 Class C Secured Floating Rate Notes due 2019 33,600,000

Total indebtedness 173,600,000

Save as described above, as at the date hereof, the Issuer has no other loan capital, borrowings, indebtedness or contingent liabilities nor has the Issuer created any mortgages or charges or given any guarantees. No convertible securities, exchangeable securities or securities with warrants have been issued and/or are outstanding. Neither the Issuer nor any subsidiary undertaking of the Issuer holds any of its own shares.

Since the date of incorporation of the Issuer, the Issuer has not traded, no profits or losses have been made or incurred and no dividends have been paid.

### **Accountant's Report**

The following is the text of a report (the *Accountant's Report*) received by the Directors of the Issuer from KPMG, Chartered Accountants, the Registered Auditors and Reporting Accountants to the Issuer. The balance sheet contained therein does not comprise the Issuer's statutory accounts. No statutory accounts have been prepared and delivered to the Registrar of Companies in the Republic of Ireland since incorporation. The Issuer's accounting reference date will be 31 December with the first statutory accounts being drawn up to 31 December, 2001.

"The Directors

Leonardo Synthetic public limited company  
2 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

4 May 2001

Dear Sirs

**Leonardo Synthetic public limited company**

The financial information set out in paragraphs 1 to 2.3, is based on the audited non-statutory financial statements of Leonardo Synthetic public limited company (the "Company") from the date of incorporation to 2 May 2001, to which no adjustments were considered necessary.

#### *Responsibility*

Such financial statements are the responsibility of the directors of the Company who approved their issue.

The directors of the Company are responsible for the contents of the Information Memorandum dated 4 May, 2001 in which the report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

#### *Basis of opinion*

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

## Opinion

In our opinion the financial information gives, for the purposes of the Information Memorandum, a true and fair view of the state of affairs of the Company as at 2 May 2001.

## Financial information

### 1. Balance sheet

	Note	€
<b>Current assets</b>		
Cash.....		40,000
<b>Capital and reserves</b>		
Called up share capital .....	2	40,000
Profit and loss account reserve .....		-
Shareholders' funds – equity .....		<u>40,000</u>

### 2. Notes

2.1 The Company was incorporated on 12 April 2001. The Company has not yet commenced business, no audited statutory financial statements have been prepared and no dividends have been declared or paid since the date of incorporation.

2.2 The Company was formed to (i) issue Limited Recourse Floating Rate Secured Notes (the "Notes") with an initial principal balance of €173,600,000; (ii) apply the proceeds of the issuance of the Notes to acquire an interest bearing Euro deposit and certain Italian government securities from Banca Intesa Banca Commerciale Italiana S.p.A; and (iii) participate in other activities related to the foregoing.

### 2.3 Basis of preparation

The financial statements are prepared in accordance with generally accepted accounting principles under the historical cost convention and comply with Financial Reporting Standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland.

The directors have prepared the non-statutory financial statements for the purposes of supporting the financial information included in the Information Memorandum of the Company to be dated 4 May, 2001.

Yours faithfully

KPMG  
Chartered Accountants"

## Business

The principal objects of the Issuer are set out in clause 3 of its Memorandum of Association and are, *inter alia*, to engage in credit default swaps, total return swaps, credit derivatives, currency and interest rate transactions and any other financial or other transactions of whatever nature, and to borrow, raise and secure the payment of money by the creation and issue of notes, bonds, debentures or other securities whether or not secured upon all or any of the Issuer's undertaking, assets, property or revenues.

Since the date of its incorporation, the Issuer has not commenced operations and no accounts have been made up as at the date of this Information Memorandum. The only activities in which the Issuer has engaged are those incidental

to its incorporation and registration as a public limited company under the Irish Companies Acts, 1963 to 1999, the authorisation of the issue of the Notes, the matters referred to or contemplated in this Information Memorandum and the authorisation, execution, delivery and performance of the other documents referred to in this Information Memorandum to which it is a party and matters which are incidental or ancillary to the foregoing.

The Issuer will not have any subsidiaries or subsidiary undertakings.

The only assets of the Issuer available to meet the claims of the Noteholders will be the assets which comprise the security for the Notes, as described under Condition 3 of the Notes.

#### **Corporate Administration**

The Corporate Administrator has entered into the Corporate Administration Agreement with the Issuer. Its duties will include the provision of certain administrative, secretarial and related services in the Republic of Ireland. The Corporate Administration Agreement may be terminated by the Corporate Administrator or the Issuer on the giving of not less than 15 calendar days prior written notice to the other on the occurrence of an event of default under the Corporate Administration Agreement or by either of such parties on giving not less than 21 calendar days prior written notice to the other in the event of the relationship becoming unlawful or a change in tax laws or regulations which would materially increase the cost or reduce the benefit to the party giving notice of participating in the relationship. In the Trust Deed the Issuer has undertaken to ensure that there is at all times a corporate administrator carrying out the services referred to.

#### **Corporate Officers Agreement**

The Corporate Officers Provider will enter into the Corporate Officers Agreement with the Issuer on or about the Closing Date. Its duties include the nomination of persons to act as directors of the Issuer.

## RATING OF THE NOTES

It is a condition to issuance of the Notes that: (i) the Class A Notes be rated AAA by S&P, AAA by Fitch and Aaa by Moody's, (ii) the Class B Notes be rated AA by S&P, AA by Fitch and Aa2 by Moody's and (iii) the Class C Notes be rated A by S&P, A by Fitch and A2 by Moody's.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The ratings assigned to the Notes by S&P, Fitch and Moody's are based largely on the statistical analysis of historical default rates on Reference Obligations with various ratings, and the Claim Eligibility Criteria, Replenishment Conditions, Concentration Thresholds and Substitution Conditions that the Reference Portfolio is to satisfy. There can be no assurance that actual defaults on the Reference Obligations will not exceed those assumed by S&P's, Fitch's and Moody's respective analysis and that recovery rates with respect thereto will not differ from those assumed by S&P, Fitch and Moody's. The Issuer makes no representation as to the expected rate of defaults on the Reference Obligations or as to the expected timing of any defaults that may occur.

## DESCRIPTION OF THE NOTES WHILST IN GLOBAL FORM

### Initial Settlement

The Notes will be issued in bearer form and will be represented initially by a Temporary Global Note, without interest coupons or talons attached. The Temporary Global Note will be deposited with the Common Depositary for the account of Euroclear and Clearstream, Luxembourg on or about the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit each subscriber of Notes represented by a Temporary Global Note with a principal amount of Notes equal to the principal amount for which it has subscribed and paid. Interests in the Temporary Global Notes will be exchangeable not earlier than 40 calendar days after the Closing Date, provided certification of non-US beneficial ownership by the relevant Noteholder has been received, for interests in the Permanent Global Notes, without interest coupons or talons attached. As used herein, the term *Global Notes* includes each of the Temporary Global Notes and the Permanent Global Notes. On an initial exchange of interests in the Temporary Global Notes for interests in the Permanent Global Notes, the Permanent Global Notes will be deposited with the Common Depositary. Title to the Global Notes will pass by delivery. The Permanent Global Notes will only be exchangeable for Definitive Notes in limited circumstances, described below. Each of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note will be entitled to receive any payment so made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg, as appropriate.

Interest and principal on the Global Notes will be payable pursuant to arrangements made between the Common Depositary and the Paying Agents and will be payable, at the option of the Noteholder, at any specified office of any Paying Agent provided certification of non-US beneficial ownership by the Noteholders in respect of such Global Notes has been received, prior to the first payment of interest thereon, by Euroclear or Clearstream, Luxembourg. A record of each payment made on a Global Note, distinguishing between any payment of principal and payment of interest and payment of any other amount, will be endorsed on that Global Note by the Paying Agent to which that Global Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made. Each of the persons shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a Note will be entitled to receive any payment to be made in respect of that Note in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes, which must be made to the holder of the relevant Global Note, for so long as such Global Note is outstanding. Each such person must give a certificate as to non-US beneficial ownership as of the earlier of: (i) the date on which the Issuer is obliged to exchange interests in the Temporary Global Notes for interests in the Permanent Global Notes, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Notes), and (ii) the first Interest Payment Date, in order to obtain any payment due on the Notes.

For so long as the Notes are represented by a Global Note held by the Common Depositary, Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg. Notes represented by a Global Note which is not held by the Common Depositary and Notes in definitive form will be transferable by delivery of the Global Note or Note in definitive form, as the case may be.

For so long as the Notes are represented by a Global Note held by the Common Depositary, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Notes (other than with respect to the payment of principal and interest or any amounts payable on the Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the Global Notes), and the expressions Noteholder, holder and account holders shall, where appropriate, be construed accordingly. The form of the Notes provides that notices in respect of the Notes whilst represented by a Global Note need not be published but may be given either (i) by being published in a leading daily newspaper printed in the English language and with general circulation in Dublin (which is expected to be *The Irish Times*) or, if publication in such manner is not practicable, in such other leading English language daily newspaper(s) with general circulation in the Republic of Ireland and the rest of Western Europe as the Trustee may approve, or, at the option of the Issuer, or (ii) by delivery

to the Common Depositary for communication by it to Euroclear and/or Clearstream, Luxembourg for communication by them to their participants and for communication by such participants to entitled account holders.

#### **Issue of Definitive Notes**

If (i) the principal amount of the Notes becomes immediately due and payable pursuant to Condition 3 or 8 or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no alternative clearing system satisfactory to the Trustee is available or (iii) as a result of any amendment to, or change in, any laws or regulations of the Republic of Ireland or the United Kingdom or any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive bearer form, then the Issuer will, subject to and in accordance with the terms of the Trust Deed, within 30 calendar days of the occurrence of the relevant event, without charge, issue Definitive Notes (together with interest coupons and talons attached) upon the presentation and surrender of the Global Notes provided, in each case, that certification of non-US beneficial ownership has been provided in accordance with the Trust Deed.



## TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be set out in the Trust Deed:

### General

The Notes (which expression shall include the Global Notes (as defined below)) will be constituted by a trust deed (the *Trust Deed*) dated 11 May, 2001 between, among others, the Issuer and Bankers Trustee Company Limited (in such capacity, the *Trustee*). Capitalised terms used in these Conditions and not otherwise defined bear the meaning ascribed to them in the Trust Deed. The following is a summary of the principal terms and conditions of the Notes and is subject to the detailed provisions of the Trust Deed.

The Noteholders (as defined below) and the holders of the interest coupons (the *Coupons*) appertaining to the Notes (the *Couponholders*) are entitled to the benefit of, and are bound by and deemed to have notice of, all the provisions of:

- (i) the Trust Deed under which, among other things, the Trustee acts as Trustee of the Notes and takes the benefit of the security granted by the Issuer thereunder to be held on trust for all the secured parties thereunder in accordance with these Conditions and the terms thereof;
- (ii) the Paying Agency Agreement dated 11 May, 2001 between the Issuer, AIB International Financial Services Limited as Principal Paying Agent (in such capacity, the *Principal Paying Agent* and, together with any other Paying Agent appointed under the Paying Agency Agreement, the *Paying Agents*), Deutsche Bank AG London (the *Note Calculation Agent*) and the Trustee (the *Paying Agency Agreement*) under which, among other things, the Paying Agents agree to act as paying agents under the Notes and Deutsche Bank AG London agrees to act as Note Calculation Agent, in each case in accordance with the terms thereof;
- (iii) the Banking Services Agreement dated 11 May, 2001 between Allied Irish Banks p.l.c. (in such capacity, the *Bank*), the Issuer, the Trustee and AIB International Financial Services Limited (the *Banking Services Agreement*) under which the Bank agrees to act as Bank in respect of the Issuer Accounts and to provide other banking services to the Issuer;
- (iv) the Corporate Administration Agreement dated 11 May, 2001 between among others the Issuer, the Trustee and AIB International Financial Services Limited (in such capacity, the *Corporate Administrator*) (the *Corporate Administration Agreement*) under which the Corporate Administrator agrees to provide certain corporate and administrative services to the Issuer;
- (v) the Corporate Officers Agreement dated 11 May, 2001 between Structured Finance Management (Ireland) Limited (the *Corporate Officers Provider*), the Trustee and the Issuer (the *Corporate Officers Agreement*) under which, among other things, the Corporate Officers Provider agrees to nominate persons to act as directors of the Issuer;
- (vi) the Credit Default Swap dated 11 May, 2001 between Merrill Lynch International (*MLI* or, in such capacity, the *Credit Default Swap Counterparty*), Banca Intesa Banca Commerciale Italiana S.p.A. (*IntesaBci*) acting, where appropriate, through its subsidiaries (in such capacity, the *Servicer*) and the Issuer (the *Credit Default Swap*) setting out the terms of the credit default swap transaction to be entered into between the Credit Default Swap Counterparty and the Issuer;
- (vii) the Swap Guarantee dated 11 May, 2001 (the *Swap Guarantee*) pursuant to which Merrill Lynch & Co., Inc. (in such capacity the *Swap Guarantor*) unconditionally guarantees the obligations of the Credit Default Swap Counterparty under the Credit Default Swap and the obligations of the Total Return Swap Counterparty under the Total Return Swap;

- (viii) the Tripartite Agreement dated 11 May, 2001 (the *Tripartite Agreement*) between the Credit Default Swap Counterparty, IntesaBci S.p.A., London Branch and the Issuer under which IntesaBci S.p.A., London Branch has the right, subject to certain conditions, to nominate itself or any other third party, to assume the obligations of the Credit Default Swap Counterparty under the Credit Default Swap upon a default thereunder by the Credit Default Swap Counterparty;
- (ix) the IGB Purchase Agreement dated 11 May, 2001 between IntesaBci S.p.A., London Branch (in such capacity the *IGB Purchase Counterparty*) and the Issuer (the *IGB Purchase Agreement*) setting out the terms of the purchase by the Issuer of fixed and/or floating rate bonds issued by the Republic of Italy (each, together with any interest accrued thereon, an *IGB* and together, the *IGBs*) from the IGB Purchase Counterparty;
- (x) the Total Return Swap dated 11 May, 2001 between MLI (in such capacity, the *Total Return Swap Counterparty*) and the Issuer (the *Total Return Swap*) setting out the terms of the total return swap transaction to be entered into between the Total Return Swap Counterparty and the Issuer;
- (xi) the Custody Agreement dated 11 May, 2001 between Deutsche Bank AG London (in such capacity, the *Custodian*), the Issuer and the Trustee (the *Custody Agreement*) pursuant to which the Custodian agrees, among other things, to hold the IGBs in a Securities Account for the benefit of the Issuer;
- (xii) the Note Placement Agreement dated 4 May, 2001 between MLI and IntesaBci and Credit Agricole Indosuez (in their respective capacities as *Note Placement Agents*) and the Issuer (the *Note Placement Agreement*) pursuant to which the Note Placement Agents agree to use reasonable endeavours to place and, failing which (subject to certain conditions), to subscribe for the Notes;
- (xiii) the Deposit Agreement dated 11 May, 2001 between IntesaBci S.p.A., London Branch (in such capacity, the *Deposit Bank*), the Issuer and the Trustee (the *Deposit Agreement*) pursuant to which, among other things, the proceeds of the Class C Notes are to be utilised in acquiring an interest bearing Euro deposit of an equal amount held in an account in the name of the Issuer (the *Cash Deposit Account*) with the Deposit Bank; and
- (xiv) the Deposit Assignment Agreement dated 11 May, 2001 between a subsidiary of IntesaBci (the *Assignor*), the Issuer (in such capacity, the *Assignee*), the Deposit Bank and IntesaBci acting through its Milan head office (in such capacity as beneficial owner of the Cash Deposit (as defined in the Deposit Agreement)) (the *Deposit Assignment Agreement*) pursuant to which the Assignor agrees to assign to the Assignee all of the Assignor's rights to the Cash Deposit.

Copies of the Trust Deed, the Paying Agency Agreement, the Banking Services Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Credit Default Swap, the Swap Guarantee, the Tripartite Agreement, the IGB Purchase Agreement, the Total Return Swap, the Custody Agreement, the Deposit Agreement, the Note Placement Agreement and the Deposit Assignment Agreement will be available for inspection at the registered office of the Trustee and at the specified office of the Paying Agent in Dublin.

The Issuer has issued the EUR 56,000,000 Class A Secured Floating Rate Notes (the *Class A Notes*), the EUR 84,000,000 Class B Secured Floating Rate Notes (the *Class B Notes*) and the EUR 33,600,000 Class C Secured Floating Rate Notes (the *Class C Notes*). The Class A Notes, the Class B Notes and the Class C Notes are referred to together as the *Notes*. References to the Notes or any Class thereof shall, unless the context otherwise requires, in each case, include the Coupons and Talons appertaining thereto. Each Class of Notes is constituted by the Trust Deed and is secured by the same security that secures all the other Notes. The Class A Notes will rank *pari passu* between themselves and in priority to the Class B Notes and the Class C Notes in the payment of principal and interest thereon and in the event of the security being enforced. The Class B Notes will rank *pari passu* between themselves and in priority to the Class C Notes in the payment of principal and interest thereon and in the event of the security being enforced. The Class C Notes will rank *pari passu* between themselves.

Under the Trust Deed the Issuer has: (i) assigned by way of first fixed security in favour of the Trustee all of its rights, title, interest and benefit, present and future, in, under and pursuant to the Credit Default Swap, the Swap Guarantee and the Total Return Swap, (ii) assigned by way of first fixed security in favour of the Trustee all its rights, title,

interest and benefit, present and future, in, under and pursuant to each of the Paying Agency Agreement, the Banking Services Agreement, the Deposit Agreement, the Note Placement Agreement, the IGB Purchase Agreement, the Custody Agreement, the Tripartite Agreement, the Corporate Officers Agreement, the Corporate Administration Agreement and the Deposit Assignment Agreement, (iii) charged by way of first fixed security in favour of the Trustee all its rights, title, interest and benefit, present and future, in and to (x) all sums of money which may now or hereafter are from time to time standing to the credit of, respectively, the Issuer's Euro bank account with the Bank (the *Issuer Account*), the Issuer's Cash Deposit Account with the Deposit Bank, the Issuer's cash account with the Custodian (the *Client Cash Account*) and any other bank or other account in which the Issuer may at any time acquire any right, title or interest or benefit, together with all interest accruing from time to time thereon and the debts represented thereby, and (y) all securities which may now be or hereafter are from time to time standing to the credit of the Issuer's securities account with the Custodian (the *Custody Account*), (iv) assigned by way of first fixed security in favour of the Trustee all its rights, title, interest and benefit, present and future, under and in connection with all other contracts, deeds and documents, present and future, to which the Issuer is or may become a party, (v) charged by way of first fixed security in favour of the Trustee all its rights, title, interest and benefit, present and future, in and to any other assets and property that it has acquired or may acquire, and (vi) charged by way of first floating charge to the Trustee the whole of its undertaking and all of its property and assets, whatsoever and wheresoever situated, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge or otherwise effectively assigned as security under the Trust Deed.

The Trustee has and the Paying Agents, the Corporate Administrator, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian, the holders of the Class A Notes (the *Class A Noteholders*), the holders of the Class B Notes (the *Class B Noteholders*) and the holders of the Class C Notes (the *Class C Noteholders*) (the Class A Noteholders, the Class B Noteholders and the Class C Noteholders being together the *Noteholders*) have, through the Trustee, the benefit of the above described security interests to secure sums due to the Trustee and any receiver appointed by it under the Trust Deed and the other documents to which it is a party, the Paying Agents under the Paying Agency Agreement, the Corporate Administrator under the Corporate Administration Agreement, the Bank and the Corporate Administrator under the Banking Services Agreement, the Credit Default Swap Counterparty under the Credit Default Swap, the Total Return Swap Counterparty under the Total Return Swap, the IGB Purchase Counterparty under the IGB Purchase Agreement, the Custodian under the Custody Agreement, the Class A Noteholders under the Class A Notes, the Class B Noteholders under the Class B Notes and the Class C Noteholders under the Class C Notes.

The claims of the Trustee for itself and any receiver appointed by it, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian, shall rank as set out in the Trust Deed, all of which claims shall, subject as provided below, rank in priority to the claims of the Class A Noteholders and Class A Couponholders which claims shall rank *pari passu* between themselves and in priority to the claims of the Class B Noteholders and the Class B Couponholders, the Class C Noteholders and the Class C Couponholders. The claims of the Class B Noteholders and the Class B Couponholders shall rank *pari passu* between themselves and in priority to the claims of the Class C Noteholders and the Class C Couponholders. The Class C Noteholders and the Class C Couponholders shall rank *pari passu* between themselves. Any amounts payable to the Deposit Bank under the Deposit Agreement rank behind the claims of the Noteholders.

All income and other payments to the Issuer under the Credit Default Swap, the Swap Guarantee, the Total Return Swap and the Deposit Agreement will be credited to the Issuer Account. Interest accruing on the balance standing to the credit of the Cash Deposit Account with the Deposit Bank shall be paid to the Issuer Account. Sums representing the amounts due to the Class A Noteholders under the Class A Notes, to the Class B Noteholders under the Class B Notes and to the Class C Noteholders under the Class C Notes, to the Trustee and any receiver appointed by it under the Trust Deed, to the Paying Agents under the Paying Agency Agreement, to the Corporate Administrator under the Corporate Administration Agreement, to the Corporate Officers Provider under the Corporate Officers Agreement, to the Bank and the Corporate Administrator under the Banking Services Agreement, to the Credit Default Swap Counterparty under the Credit Default Swap, to the Total Return Swap Counterparty under the Total Return Swap, to the IGB Purchase Counterparty under the IGB Purchase Agreement and to the Custodian under the Custody

Agreement will be paid out of the Issuer Account or the Client Cash Account (although amounts payable to the Credit Default Swap Counterparty under the Credit Default Swap may be applied directly from the Cash Deposits).

## 1. Form, Denomination, Title and Status

1.1 The Notes will be issued in bearer form in the denomination of EUR 100,000 each and integral multiples thereof. Each Class of Notes is initially represented by a single temporary global note (each a *Temporary Global Note*) in bearer form, without interest Coupons or Talons attached. Interests in each Temporary Global Note will be exchangeable for interests in a permanent global note (each a *Permanent Global Note*) (each of the Temporary and Permanent Global Notes being a Global Note and together the *Global Notes*) in accordance with its terms. Title to each of the Global Notes will pass by delivery. Upon deposit of the Temporary Global Notes with a common depositary (the *Common Depositary*) for the account of Euroclear Bank S.A./N.V., as operator of the Euroclear System (*Euroclear*) and Clearstream Banking, société anonyme (*Clearstream, Luxembourg*), Euroclear and Clearstream, Luxembourg will credit each subscriber with a principal amount of Notes of the relevant Class equal to the principal amount thereof for which such subscriber has subscribed and paid. No Global Note will be exchangeable for definitive Notes except in certain limited circumstances described below.

1.2 For so long as the Notes are represented by Global Notes, (i) Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg as appropriate and (ii) each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount outstanding (the *Principal Amount Outstanding*) (as determined in accordance with Condition 3.1 and Condition 7.3 below) of the Notes shall be treated by the Issuer and the Trustee as the holder of such Principal Amount Outstanding of the Notes (and the expression Noteholder shall be construed accordingly) for all purposes other than with respect to the payment of principal and interest on the Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms.

1.3 If (i) the principal amount of any of the Notes becomes immediately due and repayable pursuant to Condition 3 or 8 or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or in fact does so and no alternative clearance system satisfactory to the Trustee is available or (iii) as a result of any amendment to, or change in, the laws or regulations of the Republic of Ireland or the United Kingdom or any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which become effective on or after 11 May, 2001 (the *Closing Date*) the Issuer or the Paying Agents are or will be required to make any deduction or withholding from any payment in respect of any of the Notes which would not be required were the Notes in definitive bearer form, then the Issuer will, subject to and in accordance with the terms of the Trust Deed, issue without charge definitive bearer Notes with Coupons and talons (in exchange for and to the extent of interests in each of the Global Notes) within 30 calendar days of the occurrence of the relevant event in (i), (ii) or (iii) above. The procedures to be carried out by the relevant parties upon such exchange shall be made in accordance with the provisions of the relevant Global Note and/or the normal practice of the Common Depositary, the Paying Agents and the rules of Euroclear and Clearstream, Luxembourg for the time being. Notice of the availability of definitive Notes shall be given to Noteholders and the Trustee in accordance with Condition 13.

1.4 The Notes constitute secured obligations of the Issuer, secured as described above, and each Class of Notes as described herein rank *pari passu* among themselves.

1.5 The Notes are constituted by the Trust Deed and each Class of Notes is secured by the same security but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes and the Class B Notes will rank in priority to the Class C Notes in the event of the security being enforced. The Trust Deed contains provisions requiring the Trustee to have regard to the interests of each of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Noteholders of the most senior Class of Notes if, in the Trustee's opinion, there is a conflict between the interests of the Class A

Noteholders and/or the Class B Noteholders and/or the Class C Noteholders and/or any other persons entitled to the benefit of the security constituted by the Trust Deed.

## 2. Interest

### *Accrual of Interest*

2.1 The Notes bear interest from and including the Closing Date on the Principal Amount Outstanding of the Notes. Subject to Condition 2.5, interest will cease to accrue on each Note from the due date for redemption thereof unless, upon due presentation of such Note, payment of principal is improperly withheld or refused or default is otherwise made in payment thereof. In such event (subject to Condition 3.5), interest will continue to accrue in accordance with this Condition 2.1 (as well after as before judgment) up to, but excluding, the date on which, upon further presentation thereof, payment in full of the Principal Amount Outstanding of such Note is made or (if earlier) the seventh calendar day after the date upon which notice is duly given to the holder of such Note in accordance with Condition 13 that upon further presentation thereof being duly made such payment will be made, provided that such payment is in fact made. For the avoidance of doubt, if the Principal Amount Outstanding of a Note is reduced to zero, interest shall cease to accrue on such Note. In the event that the Principal Amount Outstanding is reinstated pursuant to Condition 7.3, interest shall accrue on such Note from the date of such reinstatement.

### *Interest Payment Dates and Interest Periods*

2.2 Subject to Condition 7, interest in respect of the Notes will be payable quarterly in arrears on 20 March, 20 June, 20 September and 20 December in each year (each such date an *Interest Payment Date*) commencing on 20 June, 2001 or, if such date is not a Business Day, on the next following Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day. In these Conditions, unless otherwise provided, *Business Day* means a day, not being a Saturday or Sunday, upon which commercial banks and foreign exchange markets settle payments in London, Milan, New York and Dublin and which is a TARGET Settlement Day (being a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System is open). The period beginning on the Closing Date and ending on, but excluding, the first Interest Payment Date (the *Initial Interest Period*) and each subsequent period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next Interest Payment Date (each such period an *Additional Interest Period*) are referred to herein as an *Interest Period*.

### *Rate of interest on the Notes*

2.3 The rate of interest payable from time to time in respect of the Notes (the *Rate of Interest*) will be determined by Deutsche Bank AG London in its capacity as note calculation agent (the *Note Calculation Agent*) two Business Days prior to the Closing Date and each Interest Payment Date in respect of the Interest Period commencing on that date (each an *Interest Determination Date*) in accordance with the following provisions:

The Rate of Interest for:

- (i) the Initial Interest Period shall be equal to EURIBOR adjusted in accordance with Linear Interpolation (such term having the meaning given to it in the 2000 ISDA Definitions published by the International Swap and Derivatives Association, Inc.) (*Adjusted EURIBOR*) by reference to the rate for deposits in Euro for periods of one and two months + Spread; and
- (ii) each Additional Interest Period ending on an Interest Payment Date shall be equal to EURIBOR + Spread,

where

*EURIBOR* for an Interest Determination Date means the rate for deposits in Euro for a period of three months which appears on the Telerate Page 248 as of 11.00 a.m., London time, on such Interest Determination Date (or (aa) such other page as may replace Telerate Page 248 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information

on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace the Dow Jones/Telerte Monitor) (the *Screen Rate*). If, on any Interest Determination Date, the Screen Rate is unavailable at such time and on such date, the Note Calculation Agent will request the principal London office of each of The Royal Bank of Scotland plc, Barclays Bank PLC, Lloyds TSB Bank Plc and Citibank, N.A., or any duly appointed substitute reference bank(s) as may be approved by the Trustee, (the *Reference Banks*) to provide the Note Calculation Agent with its offered quotation to leading banks for deposits in Euro for a period of three months in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. EURIBOR for the relevant Interest Period shall be determined, on the basis of the offered quotations of those Reference Banks, as the arithmetic mean (rounded upwards to four decimal places) of the rates so quoted. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Note Calculation Agent, EURIBOR for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Note Calculation Agent with such an offered quotation, the Note Calculation Agent shall forthwith consult with the Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Note Calculation Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and EURIBOR for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such banks as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then EURIBOR for the relevant Interest Period shall be EURIBOR in effect for the last preceding Interest Period to which the foregoing provisions of this definition shall have applied;

*Spread* means (a) in respect of the Class A Notes, 0.45 per cent. per annum, (b) in respect of the Class B Notes, 0.70 per cent. per annum and (c) in respect of the Class C Notes, 1.15 per cent. per annum.

#### *Determination of Rate of Interest*

2.4 The Note Calculation Agent shall, on each Interest Determination Date, determine and notify the Principal Paying Agent, the Issuer, the Trustee and the Noteholders (in accordance with Condition 13) of the Rate of Interest, the Interest Payment Date and the amount of interest that will be payable in respect of each Note applicable to the Interest Period commencing on the Interest Payment Date immediately following such Interest Determination Date. The interest amount (the *Interest Amount*) in respect of each Note and such Interest Period shall be calculated by the Note Calculation Agent, subject to Condition 7, by applying the relevant Rate of Interest to the Principal Amount Outstanding of that Note on the first day of such Interest Period on the basis of the actual number of days in such Interest Period and a year of 360 days and shall be notified by it to the Principal Paying Agent, the Issuer, the Trustee and the Noteholders (in accordance with Condition 13). The Principal Paying Agent shall notify the Irish Stock Exchange Limited (the *Irish Stock Exchange*) (or any stock exchange on which the Notes are for the time being listed) of the relevant Rate of Interest, the Interest Amount, the relevant Interest Period and the relevant Interest Payment Date in respect of each Note as soon as possible after their determination and as soon as possible after the date of commencement of the relevant Interest Period.

#### *Interest on Retained Amounts*

2.5 Interest shall accrue on any Retained Amount (as defined in Condition 3.2) from the due date for such payment had it not been retained until payment to the Noteholders in respect of any Retained Amount is required to be made in accordance with Condition 3.2(b) (the *Retained Period*) at a rate of 7-day EURIBOR + Spread, reset weekly, during the relevant Retained Period.

*7-day EURIBOR* shall be determined in the manner set out in Condition 2.3 substituting references to "deposits in Euro for a period of three months" by "deposits in Euro for a period of 7 calendar days".

### *Certificates to be Final*

2.6 All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of these provisions shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Trustee and all Noteholders and Couponholders.

2.7 The liability of the Issuer to make payments in respect of interest on the Notes may only be satisfied out of its interest in the assets referred to, and in the manner specified, in Condition 3.5.

## 3. Redemption and Realisation of Security

### *Redemption*

3.1(a) Unless previously redeemed, and save as provided in Condition 3.2, the Issuer will redeem all the Notes on 20 June 2019 (the *Maturity Date*) or, if such date is not a Business Day, on the next following Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day, at their Principal Amount Outstanding (as determined according to the provisions set out below) together with accrued interest.

Subject as otherwise provided in these Conditions, the Principal Amount Outstanding of a Note shall be equal to its par value.

3.1(b) If on any date the Issuer is required to pay a Cash Settlement Amount to the Credit Default Swap Counterparty under the Credit Default Swap, then, except to the extent at any time such payment can be made from amounts standing to the credit of (i) the Issuer Account (after any interest payments to be made on the Notes on such date and before the sale of any IGBs and before any payments under the Total Return Swap as a result of the sale of the IGBs) (the *Issuer Account Surplus*), and, if such amounts are insufficient, from (ii) the Cash Deposit, such payment of the Cash Settlement Amount will be funded from the proceeds received from the sale of IGBs by the Issuer and, to the extent that the net proceeds of such sale are insufficient to pay in full the Cash Settlement Amount, the Total Return Swap Counterparty shall pay such shortfall to the Issuer.

An amount equal to the Cash Settlement Amount which is expressed in US Dollars, if any, (less any portion of such Cash Settlement Amount paid out of the Issuer Account Surplus as aforesaid) will be converted into a Euro amount at the Euro Fixed Exchange Rate (as defined in Condition 3.11) (the *Requisite Reduction*) and will be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class C Notes by making a rateable reduction in the Principal Amount Outstanding of each Class C Note. If and to the extent that the aggregate Principal Amount Outstanding of the Class C Notes (after taking account of any previous reduction or reinstatement thereof in accordance with Condition 3.1 and Condition 7.3 respectively and the Trust Deed) is, or is reduced to, zero, such amounts shall be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class B Notes, by making a rateable reduction in the Principal Amount Outstanding of each Class B Note. If and to the extent that the aggregate Principal Amount Outstanding of the Class B Notes (after taking account of any previous reduction or reinstatement thereof in accordance with Condition 3.1 and Condition 7.3 respectively and the Trust Deed) is, or is reduced to, zero, such amounts shall be applied in reducing *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes, by making a rateable reduction in the Principal Amount Outstanding of each Class A Note until such Principal Amount Outstanding is reduced to zero.

If, pursuant to the operation of Condition 3.1(b), the Principal Amount Outstanding of any Note is, or is reduced to, zero, such Note shall not be redeemed. Subject to Condition 3.8 and Condition 7.3, no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

3.1(c) On each Fixed Rate Payment Date falling on or after 20 June 2006, the Fixed Rate Payer Notional Amount will automatically be reduced in an amount equal to any Cancelled Amount (other than a Cash Settlement Amount taken into account pursuant to Condition 3.1(b) above) in respect of the immediately preceding Calculation Period (as such terms are defined in the Credit Default Swap) provided and to the extent that the Aggregate Cancelled Amounts exceeds USD 787,375,680 (the *Amortisation Threshold*). On each such date the Issuer will be required to

apply an amount equal to such Cancelled Amount in each case *pro rata* and *pari passu* in redemption of the Class A Notes and unpaid interest accrued thereon, and following the redemption in full of the Class A Notes, *pro rata* and *pari passu* in redemption of the Class B Notes and unpaid interest accrued thereon, and following the redemption in full of the Class B Notes, *pro rata* and *pari passu* in redemption of the Class C Notes and unpaid interest accrued thereon.

If, pursuant to the operation of this Condition 3.1(c), the Principal Amount Outstanding of any Note is, or is reduced to, zero, such Note shall thereupon be redeemed without any further act. Subject to Condition 3.8 no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

3.1(d) If the Deposit Bank fails to pay any amount owing to the Issuer pursuant to the terms of the Deposit Agreement (the *Deposit Default Amount*), then, except where such failure arises solely from administrative or technical failures in the banking system unrelated to the Deposit Bank and/or where the amount is paid within two Business Days of the due date, an amount equal to such Deposit Default Amount will be applied *pro rata* and *pari passu* in reducing the Principal Amount Outstanding of the Class C Notes by making a rateable reduction in the Principal Amount Outstanding of each Class C Note.

If, pursuant to the operation of this Condition 3.1(d), the Principal Amount Outstanding of any Class C Note is, or is reduced to zero, such Note shall be redeemed without any further act. Subject to Condition 3.8 no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

3.1(e) For all purposes under the Conditions, the Principal Amount Outstanding with respect to each Class of Notes will be calculated by the Note Calculation Agent. Any determination made by the Note Calculation Agent will be binding in the absence of wilful default, bad faith or manifest error. To the extent that the Note Calculation Agent determines that there has been a reduction in the Principal Amount Outstanding under a Class of Notes, the Note Calculation Agent shall notify the Trustee, the Noteholders in accordance with Condition 13, the Principal Paying Agent and the Issuer of the amended Principal Amount Outstanding of the relevant Class of Notes.

#### *Retained Amount upon Maturity or Early Redemption*

3.2 If there has been a Credit Event with respect to any of the Reference Obligations and a Credit Event Notice has been duly served (as defined in the Credit Default Swap) and the Cash Settlement Amount in relation to any such Reference Obligation under the Credit Default Swap has not been paid by the Maturity Date or any earlier date upon which the Notes or any of them are to be redeemed in accordance with Condition 3.3 or 3.4 (the *Redemption Date*) then:

- (a) on the Maturity Date or, as the case may be, the Redemption Date, the Issuer shall apply an amount equal to the Principal Amount Outstanding of the Notes, together with interest accrued thereon, less the aggregate Reference Obligation Notional Amounts (as defined in the Credit Default Swap) of all such Reference Obligations (the *Retained Amount*); and
- (b) with respect to each such Reference Obligation, as soon as practicable after the Valuation Date (as defined in the Credit Default Swap) in respect of such Reference Obligation but in any event not later than the Final Settlement Date, the Issuer shall apply an amount equal to that part of the Retained Amount as relates to such Reference Obligation less the Cash Settlement Amount required to be paid by it to the Credit Default Swap Counterparty under the Credit Default Swap in respect of such Reference Obligation,

in each case *pro rata* in redemption of the Class A Notes and unpaid interest accrued thereon and, following the redemption in full of the Class A Notes, *pro rata* in redemption of the Class B Notes and unpaid interest accrued thereon and, following the redemption in full of the Class B Notes, *pro rata* in redemption of the Class C Notes and unpaid interest accrued thereon.



The Note Calculation Agent shall notify the Trustee, the Principal Paying Agent, the Issuer and the Noteholders in accordance with Condition 13 of the payments to be made in accordance with paragraphs (a) and (b).

#### *Mandatory Redemption*

- 3.3 (i) In the event that either the Credit Default Swap or the Total Return Swap is terminated whilst any of the Notes remain outstanding, the Issuer shall, on the date of such termination, become liable to redeem the Notes then outstanding at their Principal Amount Outstanding, together with unpaid interest accrued to the date of redemption (together with the full amount of any interest on the Notes which has not been paid on any previous Interest Payment Date pursuant to Condition 7). Seven Business Days' notice of such redemption shall be given to the Trustee and to Noteholders in accordance with Condition 13. The Credit Default Swap shall be treated as terminated upon the occurrence of the Termination Date thereunder notwithstanding that certain amounts may be payable thereunder.
- (ii) For the avoidance of doubt, no principal will be repaid in respect of the Class C Notes until the Class B Notes have been paid in full and no principal will be repaid in respect of the Class B Notes until the Class A Notes have been paid in full.
- (iii) If pursuant to the operation of Condition 3.1(a), 3.1(c) or 3.1(d) the Principal Amount Outstanding of any Note is reduced to zero, such Note shall thereupon be redeemed without any further act and, subject to Condition 3.8, no further payment of principal or interest (other than interest which has already become due and remains unpaid) shall be payable in respect thereof.

#### *Redemption for Taxation Reasons*

3.4 If at any time:

- (i) the Issuer will be required to make such a withholding or deduction as is referred to in Condition 6 (otherwise than because any tax, duty, assessment or governmental charge in question arises by reason of a Noteholder being connected with (in the case of any Irish tax, duty, assessment or governmental charge) the Republic of Ireland or (in the case of any United Kingdom tax, duty, assessment or governmental charge) the United Kingdom, except by the mere holding of Notes or Coupons), provided that this paragraph (i) shall not apply in relation to any Irish or United Kingdom tax, duty, assessment or governmental charge except where (a) the obligation to withhold or deduct arises as a consequence of any amendment to, or change in, the laws or regulations of the Republic of Ireland or the United Kingdom (as the case may be) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date and (b) the withholding or deduction cannot be avoided by a Noteholder delivering to or filing with the Issuer, any Paying Agent or any governmental or tax authority any claim, declaration, certificate or other document (whether relating to the Noteholder's residence or other status for any tax purpose or otherwise); or
- (ii) the Issuer or the Trustee is, or the Issuer on reasonable grounds satisfies the Trustee that the Issuer or the Trustee will be, subject to any circumstance (whether by reason of any law, regulation, regulatory requirement or double taxation convention or the interpretation or application thereof or otherwise) or to a tax charge (whether by direct assessment or by withholding at source) or other imposition by the Revenue Commissioners of the Republic of Ireland or the United Kingdom Inland Revenue which would materially increase the cost to it of complying with its obligations under the Trust Deed or under the Notes or Coupons or materially increase the operating or administrative expenses of the Issuer or the trust under which the shares in the Issuer are held or materially reduce the amount of any sums received or receivable by the Issuer or otherwise oblige the Issuer or the Trustee to make any material payment on, or calculated by reference to, the amount of any sum received or receivable by the Trustee on behalf of the Issuer as contemplated in the Trust Deed; or

- (iii) the Issuer or the Trustee receives, or the Issuer on reasonable grounds satisfies the Trustee that the Issuer or the Trustee will receive, as a result of an enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) in the Republic of Ireland, the United Kingdom or elsewhere that occurs on or after the Closing Date, insufficient moneys in respect of its assets to pay the amount of interest due under the Notes on the basis set out in Condition 2.3,

then the Issuer shall inform the Trustee accordingly and shall, in the case of (i) and (ii) above, use all reasonable endeavours to change the place of residence of the Issuer for taxation purposes or to exercise the right to substitute the principal debtor hereunder as described in Condition 12 where such change of residence or substitution of principal debtor would avoid the effect described in (i) or (ii) above.

If any of the circumstances referred to in (i), (ii) and (iii) above shall not, in the opinion of the Issuer or the Trustee, have been avoided within 20 calendar days of such circumstance occurring, the Issuer shall give notice thereof to the Credit Default Swap Counterparty who may, but shall not be bound, to commit to make available additional funds to the Issuer so that the Issuer is able to pay, and does so pay, any amounts owing to the Noteholders as though the circumstances in (i), (ii) or (iii) above had not occurred. If the Credit Default Swap Counterparty does not make such commitment within 20 calendar days of receiving such notice or subsequently fails to make such additional funds available to the Issuer, the Issuer shall give notice thereof to the Noteholders in accordance with Condition 13 and the holders of each Class of Notes may, within a period of 60 calendar days from the date of such notice, by a resolution passed at a meeting of the holders of the relevant class convened in accordance with the Trust Deed by a majority of 75 per cent. of the persons voting thereat (an *Extraordinary Resolution*), require the Issuer to redeem all, but not some only, of the relevant Class of Notes then outstanding at their Principal Amount Outstanding, together with unpaid interest accrued to the date fixed for redemption (together with the full amount of any interest on the relevant Class of Notes which has not been paid on any previous Interest Payment Date pursuant to Condition 7).

#### *Liability of the Issuer upon redemption, payment or repayment*

3.5 The liability of the Issuer, upon any redemption or repayment of the Notes, to make the relevant payments in respect of the principal of and interest on the Notes and to make any payment due to the Trustee, any Paying Agent, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian may only be satisfied out of the Issuer's interest in the Charged Property (as defined in the Trust Deed). None of the Trustee, the Noteholders or the Couponholders shall have any other recourse in respect of such payments against the Issuer nor shall the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty or the Custodian have any other such recourse.

None of the Trustee, the Paying Agents, the Bank, the Deposit Bank, the Corporate Administrator, the Corporate Officers Provider, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty or the Custodian, the Noteholders or the Couponholders shall be entitled at any time to institute against the Issuer, or join in the institution against the Issuer of, any bankruptcy, reorganisation, arrangement, examination, insolvency or liquidation proceedings or other proceedings under any applicable bankruptcy or similar law in connection with any obligations relating to the Notes, the Coupons, the Trust Deed, the Paying Agency Agreement, the Deposit Agreement, the Deposit Assignment Agreement, the Banking Services Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Credit Default Swap, the Total Return Swap, the IGB Purchase Agreement or the Custody Agreement.

The Note Calculation Agent shall notify the Irish Stock Exchange (or any stock exchange on which any Class of Notes are for the time being listed) and the Rating Agencies (as defined in Condition 10) of the amended Principal Amount Outstanding on each Class of Notes upon any redemption or repayment pursuant to Conditions 3.1, 3.2, 3.3 or 3.4 or any reinstatement of the Principal Amount Outstanding pursuant to Condition 7.3.

### *Disposal of security upon redemption or repayment of the Notes*

3.6 Upon the Notes becoming redeemable or repayable in full otherwise than pursuant to Condition 8, the Trustee will be required, upon the written application and at the cost of the Issuer, and without any consent of the Trustee, any Paying Agent, the Bank, the Corporate Administrator, the Corporate Officers Provider, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian or the Noteholders, to concur with the Issuer in realising the security for the Notes provided that any realisation of the security for the Notes, either on an enforcement of the security constituted under or pursuant to the Trust Deed or upon the exercise of the powers conferred by the Trust Deed, shall be on terms such that the net proceeds of sale, or realisation thereof, be paid into the Issuer Account, having deducted or withheld any applicable tax, duty, assessment or governmental charge, and then be applied in accordance with clause 9 of the Trust Deed.

### *Realisation of security following a default by the Issuer*

3.7 In the event of the security constituted under or pursuant to the Trust Deed becoming enforceable following an acceleration of the Notes as provided in Condition 8, or if the Issuer becomes obliged to redeem or repay the Notes pursuant to Conditions 3.1(a), 3.1(c), 3.1(d), 3.2, 3.3 or 3.4 but fails for any reason to do so, the Trustee may, in accordance with Clause 8(A) of the Trust Deed at its discretion and shall, subject to its having been indemnified to its satisfaction in accordance with Clause 8(B) of the Trust Deed, if so requested in writing by the holders of at least one fifth in aggregate Principal Amount Outstanding of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes) then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of each of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes), but without any liability as to the consequence of such action and without further notice, and without having regard to the effect of such action on individual holders of that Class of Notes, realise the security for that Class of Notes, all subject as provided in Condition 9.

### *Application of Proceeds*

3.8 Clause 9(A) of the Trust Deed provides that the net proceeds of the realisation of any security, after satisfaction of the Trustee's expenses, and remuneration and other amounts then due to (i) the Trustee, any receiver and any other similar officer appointed pursuant to the Trust Deed, (ii) the Paying Agents, the Bank, the Corporate Administrator, the Corporate Officers Provider and the Custodian, (iii) the Credit Default Counterparty and the Total Return Swap Counterparty and (iv) the IGB Purchase Counterparty, shall be applied first in meeting *pro rata* and *pari passu* the claims of the Class A Noteholders, secondly in meeting *pro rata* and *pari passu* the claims of the Class B Noteholders, thirdly in meeting *pro rata* and *pari passu* the claims of the Class C Noteholders and thereafter in meeting any amounts due to the Deposit Bank and payment of any surplus to the Issuer.

### *No Purchase by Issuer*

3.9 The Issuer will not be permitted to purchase any of the Notes.

### *Cancellation*

3.10 All Notes redeemed in full will be cancelled upon redemption, together with any unmatured Coupons or talons appertaining thereto or surrendered therewith and may not be resold or reissued.

### *Euro Fixed Exchange Rate*

3.11 For the purpose of converting any amount from Euro to US Dollars or US Dollars to Euro, the rate of EUR 1.10951 per US Dollar shall be used (the *Euro Fixed Exchange Rate*).

#### 4. Payments

4.1 Subject to Condition 7, and, in the case of Global Notes, the provisions of the relevant Global Note, payments of principal of and interest on the Notes will be made in Euro against, in the case of payment in full of the Principal Amount Outstanding and interest, presentation and surrender of the relevant Global Note or the Definitive Notes and Coupons and, in the case of any other payment, presentation and endorsement of the relevant Global Note, or surrender of Coupons, at the specified office of any Paying Agent. Payments of principal and/or interest in respect of the Notes shall be made by Euro cheque drawn on, or by transfer to a Euro account maintained by the payee with, a bank in Europe. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on the relevant Global Note by the Principal Paying Agent and such record shall be *prima facie* evidence that the payment in question has been made.

4.2 Each Note (other than a Global Note) should be presented for payment together with all Coupons or talons appertaining thereto which, as at the date on which interest ceases to accrue on such Note, remain unmatured, failing which any such missing Coupon or talon shall become void.

4.3 The Principal Paying Agent is AIB International Financial Services Limited whose office is, at the date hereof, at AIB International Centre, International Financial Services Centre, Dublin 1, Ireland. The Issuer may from time to time, with the approval of the Trustee, vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that the Issuer shall, whilst the Notes remain listed on the Irish Stock Exchange, maintain a Paying Agent in Dublin. Any such termination or appointment shall only take effect (other than in the case of insolvency or similar proceedings, when it shall be of immediate effect) after not more than 45 calendar days' nor less than 30 calendar days' notice thereof shall have been given to the Noteholders in accordance with Condition 13.

4.4 If the due date for payment of any amount of principal or interest in respect of the Notes is not a Business Day, then the holders of such Notes or the relevant Coupons shall not be entitled to payment of the amount due until the next following Business Day unless that day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day.

#### 5. Covenants

5.1 So long as any of the Notes remains outstanding, the Issuer shall not without the prior consent in writing of the Trustee and, in the case of paragraph (h) below, of each of the Rating Agencies (as defined in Condition 10) *inter alia*:

- (a) engage in any activity or do anything whatsoever except:
  - (i) enter into and perform its obligations under the Credit Default Swap and the Total Return Swap;
  - (ii) acquire the IGBs and the interest bearing Euro deposit to be held in the Cash Deposit Account;
  - (iii) enter into and perform its obligations under the Notes and Coupons, the Trust Deed, the Paying Agency Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Banking Services Agreement, the Deposit Agreement, the Deposit Assignment Agreement, the IGB Purchase Agreement, the Tripartite Agreement, the Custody Agreement and the Note Placement Agreement and any agreements contemplated by any of the foregoing;
  - (iv) enforce any of its rights whether under the agreements referred to in sub-paragraph (i), (ii) or (iii) above or in respect of the IGBs referred to in paragraph (ii) above, or otherwise; or
  - (v) perform any act incidental to or necessary in connection with sub-paragraphs (i), (ii), (iii) or (iv) above;
- (b) create any mortgage, charge, or other security interest or right of recourse in respect of any of its obligations in favour of any person (except as contemplated in the Conditions or the Relevant Documents (as defined in the Trust Deed));

- (c) have any subsidiaries (other than in connection with the substitution of the principal debtor under the Notes as described in Condition 12);
- (d) subject to paragraphs (a), (b) and (c) above, dispose of any of its property or other assets or any part thereof or interest therein (save for the realisation of the security over the Charged Property in accordance with the terms of the Trust Deed);
- (e) pay any dividend or make any other distribution to its members in excess of EUR 5,000 (or the equivalent in any other currency) per annum;
- (f) issue any shares in the Issuer (other than those already in issue on 11 May, 2001);
- (g) purchase, own, lease or otherwise acquire any real property (including office premises or like facilities);
- (h) subject as provided herein and in the Trust Deed, consent to any variation of, or exercise any powers of consent or waiver pursuant to, the terms of the Conditions, the Trust Deed, the Paying Agency Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Banking Services Agreement, the Deposit Agreement, the Deposit Assignment Agreement, the Credit Default Swap, the Tripartite Agreement, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement or the Note Placement Agreement or any other agreement relating to the issue of the Notes or any related transactions;
- (i) consolidate or merge with any other legal entity or convey or transfer its properties or assets substantially as an entirety to any person or legal entity (other than by the creation of the security over the Charged Property contemplated by the Trust Deed);
- (j) open or have an interest in any account whatsoever with any bank or other financial institution, save where such account or the Issuer's interest therein is immediately charged in favour of the Trustee; or
- (k) have any employees.

5.2 In giving any consent or approval to the foregoing, the Trustee may require the Issuer to agree to such modifications or additions to the provisions of the Trust Deed as the Trustee may deem expedient in the interests of the Noteholders.

5.3 The Issuer further covenants with the Trustee that each Class of Notes constitutes secured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves.

## 6. Taxation

All payments of principal and interest in respect of the Notes and the Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any authority in the Republic of Ireland or the United Kingdom having power to tax, unless such withholding or deduction is required by law. If any such withholding or deduction is required, the Issuer will not, subject to Condition 3.4, be obliged to pay any additional amounts in respect of such withholding or deduction.

## 7. Shortfall, Subordination and Reinstatement of Principal Amount Outstanding

7.1 If at any time the Issuer has insufficient assets fully to discharge any amount falling due from the Issuer under the Class A Notes, the Class B Notes and the Class C Notes on the relevant date, the Issuer will apply all the Charged Property (after meeting any claims of the Trustee and any receiver appointed by the Trustee under the Trust Deed, the Paying Agents, the Bank, the Corporate Administrator, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian) first, in discharging, in accordance with Clause 9(A) of the Trust Deed, the payments falling due under the Class A Notes (or if its assets are insufficient for such purposes, in making payment under each Class A Note on a *pari passu* and *pro rata* basis) and secondly, in discharging the payments falling due under the Class B Notes (or if its assets are insufficient for such purposes in making payment

under each Class B Note on a *pari passu* and *pro rata* basis) and thirdly in discharging the payments falling due under the Class C Notes (or if its assets are insufficient for such purposes, in making payment under each Class C Note on a *pari passu* and *pro rata* basis).

In any such event, the Issuer shall keep a record of the shortfall equal to the amount by which the aggregate amount of principal or, as the case may be, interest paid on each Class of Notes on any date in accordance with Condition 7.1 falls short of the aggregate amounts payable on that Class of Notes on that date pursuant to Condition 3. Such shortfalls shall not accrue interest but, in the case of a principal shortfall, a *pro rata* share of such shortfalls shall be aggregated with the amount of principal otherwise outstanding on each Note of the relevant Class and the Principal Amount Outstanding of such Note will be determined accordingly and, in the case of interest, shall be aggregated with the amount of, and be treated for the purpose of Condition 7.1 as if it were, interest due, subject to Condition 7.1 on each Note of that Class on the next succeeding Interest Payment Date.

7.2 In the event that the security for a Class of Notes and Coupons is enforced and the proceeds of such an enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with that Class of Notes and Coupons under the Conditions and the Trust Deed, to pay in full the Principal Amount Outstanding and other amounts whatsoever due in respect of that Class of Notes, then that Class of Noteholders and Couponholders shall have no further claims against the Issuer in respect of any such unpaid amounts.

7.3 If the Principal Amount Outstanding of the Notes has been reduced as a result of the Issuer being required to pay a Cash Settlement Amount to the Credit Default Swap Counterparty under the Credit Default Swap, and the Issuer subsequently receives any Late Recovery Payment or Estimated Late Recovery Payment from the Credit Default Swap Counterparty on any Floating Rate Payment Date (such terms having the meaning given to them in the Credit Default Swap), then the Principal Amount Outstanding of the Notes will be reinstated as at that Cash Settlement Date in an aggregate amount equal to any such receipt. Such receipt will be used first to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class A Notes and, following reinstatement in full of the Class A Notes, to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class B Notes and, following reinstatement in full of the Class B Notes, to reinstate *pro rata* and *pari passu* the Principal Amount Outstanding of the Class C Notes.

## 8. Events of Default

The Trustee may, and (subject to Condition 3.7 and Condition 10) if so requested in writing by the holders of at least one fifth in aggregate Principal Amount Outstanding of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes outstanding, the Class C Notes) or if so directed by an Extraordinary Resolution of the Class A Noteholders (or, if there are no Class A Notes outstanding, the Class B Noteholders or, if there are no Class A Notes or Class B Notes outstanding, the Class C Noteholders) subject, in each case, to its being indemnified to its satisfaction (but, in the case of the happening of any of the events mentioned in paragraphs (b), (c) and (d) below, only if the Trustee shall have certified to the Issuer that the happening of such event is in its opinion materially prejudicial to the interests of the relevant Class of Noteholders), shall give notice to the Issuer that the relevant Class of Notes are, and they shall accordingly immediately become, due and payable at their Principal Amount Outstanding, together with accrued interest (including the full amount of any interest on the Notes which has not been paid on any previous Interest Payment Date pursuant to Condition 7), in the event of the occurrence of an Event of Default. For the purposes of this Condition 8, an Event of Default shall occur if:

- (a) default is made in any payment of principal or interest due in respect of any of the Class A Notes, the Class B Notes or the Class C Notes as and when the same shall become due and payable and such default shall have continued for a period of three Business Days, provided that no Event of Default shall be capable of occurring in respect of any payment due under Condition 3 where, subject to and in accordance with Condition 7, such payment is not made, or is not made in full, solely by reason of net sums available to the Issuer being insufficient to pay all amounts due to the Class A Noteholders or the Class B Noteholders or the Class C Noteholders; or

- (b) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an examination order) unless such proceedings are not, in the opinion of the Trustee, being disputed in good faith with a reasonable prospect of success, or an examination order shall be granted or an examiner or receiver, liquidator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) shall not be discharged or otherwise cease to apply within 60 calendar days, or the Issuer shall initiate or consent to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (c) an order shall be made or an effective resolution shall be passed for winding up the Issuer (except for the purpose of a reconstruction or an amalgamation the terms of which have previously been approved in writing by the Trustee) or the Issuer is, or is deemed, unable to pay its debts as and when they fall due within the meaning of Section 214 of the Companies Act 1963 of the Republic of Ireland (as amended) and Section 2(3) of the Companies (Amendment) Act 1990 of the Republic of Ireland (as that section may be amended from time to time); or
- (d) default shall be made by the Issuer in the performance or observance of any obligation, covenant, condition or provision binding on it under the Notes or the Trust Deed (other than an obligation for the payment of any amount due in respect of the Notes) and, except where such default is not capable of remedy (in which case no such notice or continuation as is hereinafter mentioned shall be required), such default continues for 30 calendar days after written notice thereof has been given by the Trustee to the Issuer requiring the same to be remedied.

For the avoidance of doubt, an Event of Default will not arise by virtue of a reduction in the Principal Amount Outstanding of the Notes by virtue of a payment by the Issuer under the Credit Default Swap in accordance with Condition 3.1 or otherwise.

## **9. Enforcement; Indemnification of the Trustee**

9.1 The Trustee shall not be bound to take any action against any person in relation to a Class of Notes unless (i) it shall have been so requested in writing by the holders of at least one-fifth in aggregate Principal Amount Outstanding of the relevant class of Notes or if so directed by an Extraordinary Resolution of the Noteholders of the relevant class and (ii) it shall have been indemnified to its satisfaction.

9.2 Only the Trustee may pursue the remedies available under the general law or under the Trust Deed to enforce its rights and the rights of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian and the Bank and no such person is entitled to proceed against the Issuer, its assets or undertakings or any other person unless the Trustee, having become bound to proceed in accordance with the terms of the Trust Deed, fails or neglects to do so within a reasonable time and such failure is continuing. The Trustee having realised the security and distributed the net proceeds in accordance with Condition 3 and the other provisions of the Trust Deed, the Trustee may not take any further steps against the Issuer to recover any sum still unpaid.

9.3 On any redemption or enforcement pursuant to Condition 3 or 8, the Trustee shall be entitled to be indemnified in priority to any claims of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Paying Agents, the Corporate Administrator, the Corporate Officers Provider, the Bank, the Credit Default Swap Counterparty, the Total Return Swap Counterparty, the IGB Purchase Counterparty and the Custodian.

9.4 The Trustee may, at any time after the security for the Notes has become enforceable, realise the security for the Notes in accordance with the terms of the Trust Deed on terms that the proceeds of such realisation be paid into the Issuer Account for application as more particularly described in Condition 3 and the other provisions of the Trust Deed or continue to hold the security for the Notes in anticipation of repayment or redemption thereof in accordance with the terms of the Trust Deed.

9.5 The Trustee and its affiliates are entitled to be indemnified and relieved from responsibility for taking enforcement proceedings or enforcing or directing enforcement of the security unless indemnified to their satisfaction.

9.6 The Trustee is entitled to enter into business transactions with any of the Issuer, the Paying Agents, the Bank, the Corporate Administrator, the Corporate Officers Provider, the Credit Default Swap Counterparty, the Swap Guarantor, the Total Return Swap Counterparty, the IGB Purchase Counterparty, the Custodian or any of their subsidiaries or any other person without accounting to the Noteholders for any profit resulting therefrom.

9.7 Subject to Condition 3.7, the Trustee will, when acting in connection with the security for the Notes, act in the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders taken as a whole provided that upon the enforcement of the security if there shall, in the opinion of the Trustee, be a conflict between the interests of any class of Noteholders, the Trustee shall act in the interests of the most senior class of Noteholders.

9.8 The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of *inter alia* any asset comprised in the Charged Property (as defined in the Trust Deed) or any deeds or documents of title thereto being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Trustee.

9.9 The Trust Deed contains provisions which have the effect of giving priority, to the extent permitted by law, to the provisions of the Trust Deed over the relevant provisions of the Trustee Act 1925 and the Trustee Act 2000.

## 10. Meetings of Noteholders; Modification and Waiver

The Trust Deed contains provision for convening meetings of each class of Noteholders to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Conditions and the provisions of the Trust Deed. The quorum at any such meeting is two or more Noteholders of the relevant class present in person and/or persons present in person holding voting certificates and/or being proxies and being or representing in the aggregate the holders of a clear majority of the aggregate Principal Amount Outstanding of the relevant class of Notes or, at any adjourned such meeting, two or more Noteholders of the relevant class present in person and/or persons present in person holding voting certificates and/or being proxies and being or representing in the aggregate the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the relevant class of Notes, except that at any meeting the business of which includes the modification of certain of the Conditions, the necessary quorum is two or more Noteholders of the relevant class present in person and/or persons present in person holding voting certificates and/or being proxies and being or representing in the aggregate the holders of not less than 75 per cent. in Principal Amount Outstanding of the relevant class of Notes, or at any adjourned such meeting not less than 25 per cent. in Principal Amount Outstanding of the relevant class of Notes. Any resolution duly passed at such a meeting shall be binding on all Noteholders of the relevant class, whether present or not. The Trust Deed contains provisions limiting the powers of a class of Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Noteholders of a more senior class. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders irrespective of the effect on their interests.

The Trustee shall have power to agree (without the consent of the Noteholders) (i) to any modification (subject to certain exceptions as outlined above) of, or the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed, the Paying Agency Agreement, the Corporate Administration Agreement, the Corporate Officers Agreement, the Banking Services Agreement, the Credit Default



Swap, the Tripartite Agreement, the Swap Guarantee, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement, the Deposit Agreement or the Note Placement Agreement or that any act which, by itself or with other conditions, events or acts, constitutes a Potential Event of Default or an Event of Default (such terms as defined in the Trust Deed) shall not be treated as such, provided that, in the opinion of the Trustee, the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders are not materially prejudiced thereby or (ii) to any modification which is of a formal, minor or technical nature or which is made to correct a manifest error.

Any such modification, waiver, authorisation or agreement shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders and to Standard & Poor's Rating Services – a division of The McGraw Hill Companies, Inc., Fitch Ratings Ltd and Moody's Investors Service Limited (the *Rating Agencies*) as soon as practicable thereafter in accordance with Condition 13.

In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to any such modification, waiver, authorisation or agreement, or any proposed substitution of the Issuer as principal debtor pursuant to Condition 12), the Trustee shall not have regard to the consequences thereof for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory.

#### **11. Replacement of Notes**

If a Global Note or, if issued, any Definitive Note, Coupon or talon is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Principal Paying Agent for the time being (or such other place of which notice shall have been given to the Noteholders) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and security as the Issuer may require. A mutilated or defaced Global Note or (as the case may be) Definitive Note, Coupon or talon must be surrendered before a replacement will be issued.

#### **12. Substitution of Principal Debtor**

The Trustee may agree, without the consent of the Class A Noteholders, the Class B Noteholders or the Class C Noteholders, to the substitution of any person in place of the Issuer as principal debtor under the Trust Deed and the Notes. Such substitution shall be subject to the relevant provisions of the Trust Deed and to such amendments thereof as the Trustee may deem appropriate, to the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by such substitution and to the Rating Agencies confirming that the rating of the Notes will not be prejudiced by such substitution. Such substitution shall be notified to, and carried out in compliance with the requirements of the Irish Stock Exchange.

#### **13. Notices**

Notices may be given to Noteholders in any manner deemed acceptable by the Trustee provided that for so long as the Notes are listed on the Irish Stock Exchange, such notice shall be in accordance with the rules of the Irish Stock Exchange. Notices regarding the Notes will be deemed duly given if published in a leading daily newspaper printed in the English language and with general circulation in Dublin (which is expected to be *The Irish Times*) or, if publication in such manner is not practicable, notices will be published in such other leading English language daily newspaper(s) with general circulation in the Republic of Ireland and the rest of Western Europe as the Trustee may approve and any such notice shall be deemed to have been given on the date of such publication or, if published more than once or upon different dates, on the date of the first such publication, provided that if and for so long as the Notes are represented by Global Notes, notices to Noteholders will be given either (i) by being published as aforesaid or, at the option of the Issuer, (ii) by delivery to the Common Depository for communication by it to Euroclear and/or Clearstream, Luxembourg for communication by them to their participants and for communication by such participants to entitled account holders. Any notice delivered to Euroclear and/or Clearstream, Luxembourg as aforesaid shall be deemed to have been given on the day on which it is delivered to the Common Depository.

A copy of each notice given in accordance with this Condition 13 shall be provided to (for so long as the Notes of any class are listed on the Irish Stock Exchange) the Company Announcements Office of the Irish Stock Exchange and to the Rating Agencies. References in these Conditions to the Rating Agencies shall include any additional or replacement rating agency appointed by the Issuer, with the prior written approval of the Trustee, to provide a credit rating in respect of the Notes or any class thereof. For the avoidance of doubt, and unless the context otherwise requires, all references to "rating" and "ratings" in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies.

The holders of the Coupons and talons shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with Condition 13.

#### **14. Prescription**

Claims for payment of principal and interest will not be enforceable unless a Global Note is, or the Definitive Notes and Coupons (if issued) are, presented for payment within a period of 10 years from the payment dates relating thereto.

#### **15. Paying Agent**

In acting under the Paying Agency Agreement, the Paying Agents will act solely as agent of the Issuer and will not assume any obligation to or relationship of agency or trust with the Noteholders, unless an Event of Default has occurred, or with the lapse of time would occur, at which time the Paying Agents will (if the Trustee so directs) act as agent of the Trustee. The Paying Agency Agreement may be amended by the parties thereto if, in the opinion of the Trustee, such amendment would not materially adversely affect the interests of the Noteholders. Notice of any amendments to the Paying Agency Agreement pursuant to Condition 15 shall, unless the Trustee otherwise agrees, promptly be given to the Noteholders in accordance with Condition 13.

#### **16. Governing Law**

These Conditions, the Notes, the Trust Deed, the Paying Agency Agreement, the Banking Services Agreement, the Credit Default Swap, the Tripartite Agreement, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement, the Deposit Agreement, the Deposit Assignment Agreement, the Corporate Officers Agreement and the Note Placement Agreement are each governed by and will be construed in accordance with English law. The Issuer has submitted to the jurisdiction of the English courts for all purposes in connection with such documents, other than the Deposit Assignment Agreement, and has designated a person in England to accept service of any process on its behalf. The Corporate Administration Agreement is governed by and will be construed in accordance with Irish law. The Swap Guarantee is governed by and will be construed in accordance with the laws of the State of New York.

#### **17. Privity of Contract**

The Notes do not confer any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term or condition of any Note, but this does not affect any right or remedy of a third party which exists or is available apart from the provisions of such Act.

## SUBSCRIPTION, SALE AND DISTRIBUTION

Subject to the terms and conditions set out in the note placement agreement dated 4 May, 2001 between the Issuer and the Note Placement Agents (the *Note Placement Agreement*), the Issuer has agreed to issue and each of the Note Placement Agents have agreed to use its reasonable endeavours to procure places to subscribe for the Class A Notes, the Class B Notes and the Class C Notes for up to EUR 56,000,000 original principal amount of the Class A Notes, up to EUR 84,000,000 original principal amount of the Class B Notes, up to EUR 33,600,000 original principal amount of the Class C Notes. The obligations of the Note Placement Agents under the Note Placement Agreement are subject to certain conditions precedent and the Note Placement Agents are entitled to terminate the Note Placement Agreement if any of the conditions is not satisfied on or prior to the Closing Date. Each Note Placement Agent is entitled to a commission under and in accordance with the terms of the Note Placement Agreement.

### United States of America

The Notes have not been and will not be registered under the Securities Act and the Issuer will not be registered under the Investment Company Act. Accordingly, subject to certain exceptions when certain transactions are exempt from the registration requirements of the Securities Act, the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US Persons.

Each Note Placement Agent has represented that it has not offered and sold the Notes, and agreed that it will not offer and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 calendar days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, US Persons. In addition, each Note Placement Agent has represented and agreed that 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 US Persons. Terms used in this section have the meanings given to them by Regulation S under the Securities Act.

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

### United Kingdom

Each Note Placement Agent has represented to and agreed with the Issuer in the Note Placement Agreement that:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) 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; and
- (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

### The Republic of Ireland

Each Note Placement Agent has further represented to and agreed with the Issuer in the Note Placement Agreement that:

- (a) other than in circumstances which do not constitute an offer or sale to the public by means of a prospectus within the meaning of the Companies Acts, 1963 to 1999 of the Republic of Ireland (i) prior to application for listing of the Notes being made and the Irish Stock Exchange having approved this Information Memorandum in accordance with the Regulations, it has not offered or sold and will not offer or sell, in the Republic of Ireland or elsewhere, by means of any document or other means of visual reproduction, including electronic means, any of the Notes, (ii) subsequent to application for listing of the Notes being made and the Irish Stock Exchange approving this Information Memorandum in accordance with the Regulations, it has not offered or sold and will not offer or sell, in the Republic of Ireland or elsewhere, any of the Notes by means of any document or other means of visual reproduction, including electronic means, other than this Information Memorandum (or any document including electronic means of visual reproduction approved as aforesaid, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations) and only where this Information Memorandum (or such other listing particulars as aforesaid) is accompanied by an application form or an application form is issued which indicates where this Information Memorandum (or such other listing particulars as aforesaid) can be obtained or inspected and (iii) it has not issued and will not issue at any time, in the Republic of Ireland or elsewhere, any application form for any of the Notes unless the application form is accompanied by this Information Memorandum (or a document including electronic means of visual reproduction, which sets out listing particulars in relation to the Notes prepared in accordance with the Regulations and approved by the Irish Stock Exchange) or the application form indicates where this Information Memorandum or such listing particulars can be obtained or inspected;
- (b) it has not made and will not make at any time any offer of any of the Notes in the Republic of Ireland to which the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of the Republic of Ireland would apply;
- (c) it will not sell any Notes pursuant to this Information Memorandum and it will not take any proceedings on applications made pursuant to this Information Memorandum until the fourth business day in the Republic of Ireland after the date of this Information Memorandum; and
- (d) it will not underwrite the issue of or place the Notes otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act, 1995 (as amended), including, without limitation, Sections 9, 23 (including any advertising restrictions made thereafter) and 50 and any codes of conduct made under Section 37.

## Italy

Each of the Note Placement Agents acknowledges that no action has or will be taken by it which would allow a public offer (*sollecitazione all'investimento*) of the Notes in the Republic of Italy unless in compliance with the relevant Italian securities, tax and other applicable laws and regulations. Accordingly, each of the Note Placement Agents agrees that the Notes will not be offered, sold or delivered by it and neither the Information Memorandum nor any other offering material relating to the Notes will be distributed or made available by it to the public in the Republic of Italy. Each of the Note Placement Agents understands that individual sales of the Notes to any persons in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.

Each of the Note Placement Agents acknowledges that no application has been made by any person to obtain an authorisation from CONSOB for the public offering of the Notes in the Republic of Italy. Accordingly, each of the Note Placement Agents represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, and has not distributed and will not distribute and has not made and will not make available in the Republic of Italy any Notes, the Information Memorandum nor any other offering material relating to the Notes other than to professional investors (*investitori professionali/operatori qualificati*) as defined in art. 31, paragraph 2, of CONSOB Regulation no. 11522 of 1 July 1998 pursuant to art. 100, paragraph 1, lett. b) and art. 30, paragraph 2, of D. Lgs no. 58 of 24 February 1998 (the *Financial Laws Consolidation Act*) and in accordance with applicable Italian laws and regulations. Each of the Note Placement Agents understands that any offer of the Notes to professional investors in the Republic of Italy shall be made only by banks, investment firms or financial companies enrolled in the special

register provided for in art. 107 of the Italian Banking Law Consolidated Act (*the Banking Act*), to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Financial Laws Consolidation Act and in compliance with art.129 of the Banking Act.

### France

Each of the Note Placement Agents further represents to, and agrees with, the Issuer that (i) it has not offered and will not offer, directly or indirectly, any Notes to the public in the Republic of France; and (ii) it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France this Information Memorandum or any other offering material relating to the Notes. Such offers, sales and distributions have been and shall only be made in the Republic of France to qualified investors (*investisseurs qualifiés*) as defined in and in accordance with Article L. 411-2 of the French Monetary and Financial Code (*Code monétaire et financier*) (formerly Article 6 of *Ordonnance* no. 67-833 dated 28 September 1967, as amended) and *Decree* no. 98-880 dated 1 October 1998 (the *Decree*). Investors in the Republic of France may only participate in the issue of the Notes for their own account in accordance with the conditions set out in the *Decree*. Notes may only be issued, directly or indirectly, to the public in France in accordance with Article L. 411-2 of the *Code monétaire et financier*. Persons in whose possession offering material comes must inform themselves about and observe any such restrictions.

### The Netherlands

Each of the Note Placement Agents further represents to, and agrees with, the Issuer that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

### General

Except for listing the Notes on the Official List of the Irish Stock Exchange and delivery of this Information Memorandum to the Registrar of Companies in the Republic of Ireland, no action has been taken by the Issuer or any of the Note Placement Agents outside the Republic of Ireland which would or is intended to permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, each Note Placement Agent has undertaken that it will not, directly or indirectly, offer or sell any Notes in any country or jurisdiction where action for that purpose is required and neither this Information Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances which will result in compliance with applicable laws and regulations.

## THE REPUBLIC OF IRELAND TAXATION

*The following is a summary based on the current laws and practices in the Republic of Ireland regarding the tax position of investors beneficially owning their Notes and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption, reduction, replacement, reinstatement or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.*

### **Withholding Tax**

In general, tax at the standard rate of income tax (20% from 6 April 2001) is required to be withheld from payments of Irish source yearly interest which would include interest payable on the Notes.

However, an exemption from withholding on interest payments exists under Section 64 of the Taxes Consolidation Act, 1997 (the *1997 Act*) for certain securities (*quoted Eurobonds*) issued by a body corporate (such as the Issuer) which are in bearer form, interest bearing and quoted on a recognised stock exchange (which would include the Irish Stock Exchange).

Any interest paid on such quoted Eurobonds can be paid free of withholding tax provided:

- (a) the person by or through whom the payment is made is not in the Republic of Ireland; or
- (b) the payment is made by or through a person in the Republic of Ireland, and either:
  - (i) the quoted Eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (Euroclear and Clearstream, Luxembourg are so recognised), or
  - (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in the Republic of Ireland and has made a declaration to a relevant person (such as an Irish paying agent) in the prescribed form.

Separately, under section 246 of the 1997 Act, the Issuer as a company may pay interest on the Notes in the ordinary course of its business or trade free of withholding tax to a company which is resident in a member state of the European Union (other than the Republic of Ireland) or in a country with which the Republic of Ireland has a double taxation agreement. For this purpose, residence is determined by reference to the law of the country in which the recipient claims to be resident. This exemption from withholding tax will not apply, however, if the interest is paid to that company in connection with a trade or business carried on through a branch or agency located in the Republic of Ireland.

For non-corporate holders of Notes, interest may be paid free of withholding tax if clearance in the prescribed form has been received under the terms of an applicable double taxation agreement.

In certain circumstances, Irish tax will be required to be withheld at the standard rate from interest on any Note, where such interest is collected by a bank in the Republic of Ireland on behalf of any Noteholder who is Irish resident.

### **Taxation of Noteholders**

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax. Interest paid on the Notes has an Irish source and therefore is within the charge to Irish income tax and levies. The Republic of Ireland operates a self assessment system in respect of income tax and any person, including a person who is neither resident nor ordinarily resident in the Republic of Ireland, with Irish source income comes within its scope.

There is an exemption from Irish income tax under Section 198 of the 1997 Act (*Section 198*) where either:-(a) the interest is paid by a company in the ordinary course of its trade or business and the recipient of the interest is a

company resident in a member state of the European Union (other than the Republic of Ireland) or in a country with which the Republic of Ireland has a double taxation agreement or (b) where the provisions of Section 64 of the 1997 Act (as noted above) apply and the recipient is a person who is resident in a member state of the European Union (other than the Republic of Ireland) or in a country with which the Republic of Ireland has a double taxation agreement. For this purpose, residence is determined under the terms of the relevant double taxation agreement, if such exists, or in any other case, the law of the country in which the recipient claims to be resident.

The exemption under Section 198 does not apply where the interest is paid to a foreign company carrying on business in the Republic of Ireland through a branch or agency or a permanent establishment to which interest paid by the Issuer is attributable.

Where interest does not fall within the above exemptions, relief from Irish income tax may still be available under the specific provisions of a double taxation agreement between the Republic of Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions is within the charge to Irish income tax. However, it is understood that the Revenue Commissioners have, in the past, operated a practice not to take any action to pursue any liability to such tax in respect of persons who are not regarded as being resident in the Republic of Ireland except where such persons:

- (a) are chargeable in the name of a person (including a trustee) or in the name of an agent or branch in the Republic of Ireland having the management or control of the interest; or
- (b) seek to claim relief and/or repayment of tax deducted at source in respect of taxed income from Irish sources;  
or
- (c) are chargeable to Irish corporation tax on the income of an Irish branch or agency or to income tax on the profits of a trade carried on in the Republic of Ireland to which the interest is attributable.

There can be no assurance that the Irish Revenue Commissioners will apply this practice in the case of the holders of Notes.

#### ***Capital Gains Tax***

Provided the Notes are listed on a recognised stock exchange (the Irish Stock Exchange is a recognised stock exchange), a holder of Notes will be subject to Irish tax on capital gains on a disposal of Notes unless such holder is neither resident nor ordinarily resident in the Republic of Ireland and does not carry on a trade in the Republic of Ireland through a branch or agency in respect of which the Notes were used or held.

#### ***Capital Acquisitions Tax***

If the Notes are comprised in a gift or inheritance taken from an Irish resident or ordinarily resident donor, donee or successor, or if any of the Notes are regarded as property situate in the Republic of Ireland (i.e. if the Notes are physically located in the Republic of Ireland or if the register of the Notes is maintained in the Republic of Ireland), the donee or successor of such Notes may be liable to capital acquisitions tax. Accordingly, if Notes are comprised in a gift or inheritance and are physically located in the Republic of Ireland or if the register of the Notes is maintained in the Republic of Ireland the donee or successor of such Notes may be liable to capital acquisitions tax, even though neither the donor nor the donee or successor are resident or ordinary resident in the Republic of Ireland.

For the purposes of capital acquisitions tax, under current legislation a non-domiciled person will not be treated as resident or ordinarily resident in the Republic of Ireland for the purposes of the applicable legislation until 1 December 2004 or later and then only in specified circumstances.

### *Stamp Duty*

Irish Stamp Duty is not chargeable on a transfer by delivery of the Notes.

Where the Notes are issued by a company which will be a qualifying company within the meaning of Section 110 of the 1997 Act (and it is expected that the Issuer will be such a qualifying company) and the monies raised are used by that company in course of its business, no stamp duty or similar tax is imposed in the Republic of Ireland on the issue, transfer, or redemption of the Notes, whether they are represented by Global Notes or Definitive Notes because of an exemption contained in Section 85(2)(c) of the Stamp Duties Consolidation Act, 1999.



## UNITED KINGDOM TAXATION

*The following is a general description of certain United Kingdom tax considerations relating to the Notes based on current law and practice in the United Kingdom. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates to the position of persons who are the absolute beneficial owners of Notes and Coupons and may not apply to certain classes of persons such as dealers. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the United Kingdom of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Information Memorandum and is subject to any change in law that may take effect after such date.*

### United Kingdom Taxation

#### *Withholding Tax on Interest*

If the interest on the Notes does not have a United Kingdom source, no withholding or deduction for or on account of United Kingdom tax will fall to be made from payments of interest on the Notes.

Interest on the Notes may, however, constitute United Kingdom source income for United Kingdom tax purposes. Nevertheless, the Notes will constitute "quoted Eurobonds" within the meaning of section 349 of the Income and Corporation Taxes Act 1988 (the *Taxes Act*) provided they are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Taxes Act (and the Irish Stock Exchange has been designated as a recognised stock exchange for this purpose). Accordingly, payments of interest on the Notes made by the Issuer or any paying agent may be made without withholding or deduction for or on account of United Kingdom income tax provided the Notes remain listed on a recognised stock exchange at the time of payment.

Any paying agent or other person through whom interest is paid to, or by whom interest is received on behalf of, an individual (whether resident in the United Kingdom or elsewhere) may be required to provide information in relation to the payment and the individual concerned to the United Kingdom Inland Revenue. The Inland Revenue may communicate this information to the tax authorities of other jurisdictions.

Neither the Issuer nor any paying agent will be obliged to make any additional payments to a Noteholder in respect of any withholding or deduction required to be made by applicable law.

#### *Proposed EU Directive on the Taxation of Savings Income*

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to the individual resident in that other Member State, subject to the right of certain Member States to opt instead for a withholding system for a transitional period in relation to such payments.

#### *Direct Assessment of Non-United Kingdom Resident Holders of Notes to United Kingdom Tax on Interest*

Interest on the Notes may have a United Kingdom source. Accordingly, such interest may in principle be within the charge to United Kingdom tax even if paid without withholding or deduction. However, a holder of Notes who is not resident for tax purposes in the United Kingdom, except where tax is deducted or withheld as described above, will not be liable to United Kingdom tax on the interest unless such holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable. There are also exclusions from liability for interest received by certain categories of agent (such as some brokers and investment managers). Also an exemption or reduction from United Kingdom tax payable on such interest might be available in appropriate circumstances under the provisions of an applicable double taxation convention.

### *Taxation of Returns: Companies Within the Charge to Corporation Tax*

Noteholders who are within the charge to United Kingdom corporation tax (other than authorised unit trusts) will normally be subject to tax on all profits and gains (including interest, but excluding profits and gains relating to exchange rate fluctuations) arising on or in connection with the Notes under the "loan relationship" rules contained in the Finance Act 1996. Profits and gains relating to exchange rate fluctuations thereon will be taxed under the "exchange gains and losses" rules contained in the Finance Act 1993. Any such profits and gains will generally fall to be calculated in accordance with the statutory accounting treatment of the Notes in the hands of the relevant Noteholder, and will be charged to tax as income in respect of each accounting period to which they are allocated, in accordance with that accounting treatment. Relief may be available in respect of losses (which will be determined as summarised above), or for related expenses, on a similar basis.

### *Taxation of Returns: Other Noteholders*

Noteholders who are not within the charge to UK corporation tax and are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Notes. A disposal of a Note by such a Noteholder may give rise to a chargeable gain or an allowable loss for the purposes of the taxation of capital gains and may give rise to a charge to income tax in respect of an amount representing interest on the Note which has accrued since the preceding Interest Payment Date.

### *Stamp Duty and Stamp Duty Reserve Tax*

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue or transfer by delivery of the Notes.

## LISTING AND GENERAL INFORMATION

1. (a) The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes, the Credit Default Swap, the Tripartite Agreement, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement, the Deposit Agreement, the creation and operation of the security comprised in the Trust Deed and the other documents and matters referred to in or contemplated by this Information Memorandum. The issue of the Notes, the creation of the security relating thereto and the entry into and performance of the Credit Default Swap, the Tripartite Agreement, the Total Return Swap, the IGB Purchase Agreement, the Custody Agreement, the Deposit Agreement and the other matters referred to in or contemplated by this Information Memorandum were authorised by a resolution of the Board of Directors of the Issuer passed on 4 May, 2001.
  - (b) MLI has obtained all necessary consents, approvals and authorisations in connection with the entry into and performance of the Credit Default Swap and Total Return Swap and the relevant documents to which it is a party.
  - (c) IntesaBci S.p.A., London Branch has obtained all necessary consents, approvals and authorisations in connection with the entry into and performance of the IGB Purchase Agreement and the relevant documents to which it is a party.
  - (d) Credit Agricole Indosuez has obtained all necessary consents, approvals and authorisations in connection with the entry into and performance of the relevant documents to which it is a party.
2. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 6 May, 2001 subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. The listing agent responsible for such listing is Banca Intesa Banca Commerciale Italiana S.p.A. acting through its Milan office at Piazza della Scala 6, 20121 Milan, Republic of Italy.
  3. The Issuer was incorporated in the Republic of Ireland on 12 April, 2001 with registered number 341696.
  4. There has been no material adverse change in the financial position of the Issuer since its incorporation.
  5. The Issuer is not, and has not been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had, since the date of incorporation, a significant effect on the Issuer's financial position.
  6. Copies of the annual report of the Issuer, the first of which will relate to its financial year ending 31 December, 2001 will be available at the registered office of the Issuer, currently 2 Harbourmaster Place, International Financial Services Centre, Dublin 1, and the offices of the Paying Agent in Dublin. The Issuer does not publish half-yearly financial statements. For at least 14 days from the date of this Information Memorandum, copies of the annual reports of BCI and Intesa which relate to the year ended 31 December, 2000 (and copies of the annual report for IntesaBci for all subsequent years in which the Notes are in issue) will also be available at the registered office of the Issuer and the offices of the Paying Agent in Dublin.
  7. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The international securities identification number (ISIN) allocated to the Class A Notes is XS0128618930, to the Class B Notes is XS0128619078 and to the Class C Notes is XS0128619318. The common code allocated to the Class A Notes is 012861893, to the Class B Notes is 012861907 and to the Class C Notes is 012861931.
  8. Copies of the following documents may be inspected during usual business hours on any week day (excluding Saturdays, Sundays, and public holidays) at the offices of the Trustee at Winchester House, 1 Great Winchester Street, London EC2N 2DB, McCann FitzGerald at 2 Harbourmaster Place, International Financial Services Centre, Dublin 1 and at the offices of the Paying Agent in Dublin during the period of 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of the Issuer;
  - (ii) the Note Placement Agreement;
  - (iii) prior to the Closing Date, drafts (subject to modification) and from the Closing Date, copies of the following documents:
    - (a) the Trust Deed;
    - (b) the Paying Agency Agreement;
    - (c) the Credit Default Swap;
    - (d) the Tripartite Agreement;
    - (e) the Swap Guarantee;
    - (f) the Total Return Swap;
    - (g) the IGB Purchase Agreement;
    - (h) the Custody Agreement;
    - (i) the Deposit Agreement;
    - (j) the Deposit Assignment Agreement;
    - (k) the Corporate Administration Agreement;
    - (l) the Corporate Officers Agreement;
    - (m) the Banking Services Agreement; and
    - (n) the Accountant's Report.
9. IntesaBci has given and not withdrawn its written consent to the issue of this Information Memorandum with the inclusion of reference to its views, opinions and name and in the form and context in which they are included and has authorised the content of those parts of this Information Memorandum for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
10. MLI has given and not withdrawn its written consent to the issue of this Information Memorandum with the inclusion of reference to its views, opinions and name and in the form and context in which they are included and has authorised the content of those parts of this Information Memorandum for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
11. The Swap Guarantor has given and not withdrawn its written consent to the issue of this Information Memorandum with the inclusion of reference to its views, opinions and name and in the form and context in which they are included and has authorised the content of those parts of this Information Memorandum for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
12. KPMG, the auditors of the Issuer, have given and not withdrawn their written consent to the issue of this Information Memorandum with the inclusion of their report and references to their name in the form and context in which they are included and have authorised the contents of those parts of this Information Memorandum for the purposes of Section 46 of the Irish Companies Act, 1963 (as amended).
13. This Information Memorandum includes as Appendix 1 a form of application for Notes solely to comply with certain Irish legal requirements. It is not necessary for potential purchasers to complete the application form to apply for Notes. Neither the Issuer nor the Note Placement Agents will be bound in any way whatsoever to issue or sell any Notes to any person who completes and returns such application form.

APPENDIX 1

APPLICATION FORM

LEONARDO SYNTHETIC PUBLIC LIMITED COMPANY

THIS APPLICATION FORM IS ISSUED WITH THIS INFORMATION MEMORANDUM IN ACCORDANCE WITH THE REQUIREMENTS OF THE EUROPEAN COMMUNITIES (STOCK EXCHANGE) REGULATIONS, 1984 (AS AMENDED) OF THE REPUBLIC OF IRELAND. IF YOU HAVE ALREADY RECEIVED A CONFIRMATION OF YOUR PURCHASE OF NOTES WITH THIS INFORMATION MEMORANDUM, YOU SHOULD NOT TAKE ANY ACTION WITH REGARD TO THIS APPLICATION FORM. NEITHER LEONARDO SYNTHETIC PUBLIC LIMITED COMPANY, MERRILL LYNCH INTERNATIONAL, BANCA INTESA BANCA COMMERCIALE ITALIANA S.p.A. NOR CREDIT AGRICOLE INDOSUEZ SHALL BE BOUND IN ANY WAY WHATSOEVER TO SELL ANY NOTES TO ANY PERSON WHO COMPLETES AND RETURNS THIS APPLICATION FORM

To: Banca Intesa Banca Commerciale Italiana S.p.A.  
Piazza della Scala 6  
20121 Milan  
Republic of Italy

To: Merrill Lynch International  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

To: Credit Agricole Indosuez  
9 quai du President Paul Doumer  
F-92400 Courbevoie  
B.P. 92920 Paris La Defence Cedex  
France

I/We offer to purchase ..... Notes issued by Leonardo Synthetic public limited company in the aggregate principal amount of Euro.....

[specify Class A and/or Class B and/or Class C as appropriate]

MR/MRS/MISS (TITLE)  
FORENAME(S) (IN FULL)  
SURNAME  
ADDRESS (IN FULL)

SIGNATURE

Any joint applicants should complete the following details:

MR/MRS/MISS (TITLE)  
FORENAME(S) (IN FULL)  
SURNAME  
ADDRESS IN FULL

SIGNATURE

MR/MRS/MISS (TITLE)  
FORENAME(S) (IN FULL)  
SURNAME  
ADDRESS IN FULL

SIGNATURE

Listing Particulars in respect of the Class A Notes, the Class B Notes and the Class C Notes have been approved by the Irish Stock Exchange Limited, in accordance with the European Communities (Stock Exchange) Regulation, 1984 (as amended) of the Republic of Ireland. Copies of such Listing Particulars can be inspected at, or obtained from, the offices of the Principal Paying Agent, AIB International Financial Services Limited, at AIB International Centre, I.F.S.C, Dublin 1.

**REGISTERED OFFICE OF THE ISSUER**

2 Harbourmaster Place  
International Financial Services Centre  
Dublin 1

**TRUSTEE**

**Bankers Trustee Company Limited**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**PRINCIPAL PAYING AGENT**

**AIB International Financial Services Limited**  
AIB International Centre  
International Financial Services Centre  
Dublin 1

**NOTE PLACEMENT AGENTS**

**Merrill Lynch International**  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

**Banca Intesa Banca Commerciale Italiana S.p.A.**  
Piazza della Scala 6  
20121 Milan

**Credit Agricole Indosuez**  
9 quai du President Paul Doumer  
F-92400 Courbevoie  
B.P. 92920 Paris La Defence Cedex

**CUSTODIAN**

**Deutsche Bank AG London**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**NOTE CALCULATION AGENT**

**Deutsche Bank AG London**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**CORPORATE ADMINISTRATOR**

**AIB International Financial Services Limited**  
AIB International Centre  
International Financial Services Centre  
Dublin 1

**CORPORATE OFFICERS PROVIDER**

**Structured Finance Management (Ireland) Limited**  
8 Pembroke Road  
Dublin 4

**COMMON DEPOSITARY**

**Deutsche Bank AG, London**  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**CREDIT DEFAULT SWAP COUNTERPARTY**

**Merrill Lynch International**  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

**TOTAL RETURN SWAP COUNTERPARTY**

**Merrill Lynch International**  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

**SWAP GUARANTOR**

**Merrill Lynch & Co., Inc.**  
World Financial Center  
North Tower  
250 Vesey Street  
New York 10281

**IGB PURCHASE COUNTERPARTY**

**IntesaBci S.p.A., London Branch**  
90 Queen Street  
London EC4N 1SA



**AUDITORS**

**KPMG**  
5 George's Dock  
International Financial Services Centre  
Dublin 1

**LEGAL ADVISERS**

*To Merrill Lynch International as Note Placement  
Agent, Credit Default Swap Counterparty, Total Return  
Swap Counterparty and the Trustee as to English law*

**Freshfields Bruckhaus Deringer**  
65 Fleet Street  
London EC4Y 1HS

*To IntesaBci as Note Placement Agent as to English  
law*

**Sidley Austin Brown & Wood**  
1 Threadneedle Street  
London EC2R 8AW

*To the Issuer as to Irish law*

**McCann FitzGerald**  
2 Harbourmaster Place  
International Financial Services Centre  
Dublin 1

and

St Michael's House  
1 George Yard  
Lombard Street  
London EC3V 9DF

